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THE OUTLOOK

Stock Exchange Loans—Inflation of Credit—The Aftermath—Falling Production of Gold—Business After the War—The Market Prospect

THE sharp decline in the steels and war stocks has been accompanied by only moderate reactions in the rails, coppers and the issues which are broadly designated as "peace stocks," while the oils and public utilities have shown decided strength. Bonds are holding practically the full amount of their extraordinary rally, most of which occurred in the midst of the Liberty Loan campaign.

It is a splendid demonstration of the capital resources of this country that corporation bond prices should be able to score the best advance since we entered the war at the very moment when our people were subscribing for $6,866,000,000 of Government bonds. Even a year ago this would have seemed impossible, while in 1914 any one who had predicted such achievements would have been regarded as a fit candidate for an insane asylum.

Stock Exchange Loans

THE topic of the moment in Wall Street is the action of the Banks' Money Committee in limiting the loans of Stock Exchange houses to the low level of mid-September, in addition to the requirement that the banks lend only 70% on collateral instead of the customary 80%.

Some injustice and inequality has resulted from these rulings, as would perhaps be inevitable under any scheme of loan limitation which could be devised. Many houses had already cut down their loans as much as possible before the date which the Committee has adopted as a standard, and their patriotic action has resulted in placing them at a disadvantage under the present ruling as compared with other houses which made no special effort to reduce their loans. Efforts are now being made to secure more equitable arrangements in this particular.

In spite of the fact that call money fell to 4% late last week, there can be no question as to the necessity of the Money Committee's action. Our constant inflation of credit and the rapid increase in Federal Reserve notes outstanding tend to create a fictitious appearance of ease not entirely the result of actual accumulation of investment capital. Opinions will differ as to the exact method of limiting loans for speculative purposes but we do not see much room for difference of opinion as to the desirability of the limitation in some form or other.

Reasonable ease in the money market must be maintained in order to "lubricate" our industrial operations which contribute toward winning the war, but it would be a great indiscretion, to say the least, if the Federal Board should permit the credit and currency issued as a war measure to be soaked up by rising values and increased loans on speculative securities. Means must be found to use this credit for the war, not for the benefit of operators who wish to bull the market.

Rapid Inflation

BANKS which are members of the Federal Reserve System held $1,582,000,000 of Government securities June 21, and $2,539,000,000 Oct. 25—an increase of over 60% in four months. During the same period bills discounted by Federal Reserve Banks increased nearly 80% and Government securities held increased 74%, to a combined total of $2,395,000,000.

During these four months the productive capacity of the country increased but little, while new purchasing power provided through the inflation of credit increased enormously. As the National City Bank puts it, "We have not gone as far as Germany but Germany never travelled faster."

From the standpoint of economic theory, this increase in credit and currency out of proportion to business handled is a futile absurdity. It merely represents an effort to lift ourselves by our bootstraps.

From the practical standpoint, however, inflation has never been avoided in war and until the psychology of the human animal has radically changed, never will be. What must be done is to hold inflation in check so far as possible. This the Federal Board fully realizes and of course the President, with his thorough economic training, also recognizes it. The limitation of Stock Exchange loans is simply one of the methods by which it is sought to hold back inflation and some action of the sort must be admitted to be fully justified.

What Will Be the Aftermath?

THERE is this difference between this credit inflation and that, for example, of 1906 and 1907—the Government itself stands behind our present credits and controls the situation. Left to itself, such an expanded credit position would eventually collapse disastrously; but the Government's credit standing is unassailable, therefore no such collapse is to be expected.

It is entirely probable, in fact, that hereafter a much larger volume of credit in proportion to the gold base upon which all sound credits must stand directly or indirectly, will become customary throughout the commercial world. The whole history of banking points in this direction. At first the banker was merely a money changer. His present function as a merchant of credit was of slow growth, and the recognition and understanding of his true economic position was still slower. For a long time very large reserves of cash were necessary to insure the soundness of a bank—since at any moment depositors might become alarmed and all want cash at once.

Eventually the banks learned to cooperate in the issue of clearinghouse certificates to serve as money in times of panic. In 1907 this practice became countrywide and saved the situation. The next step was the Emergency Currency Law, which merely provided that the Government should do, if necessary, what the banks had been doing in issuing clearinghouse certificates.

The Federal Reserve Law provides for a scientific increase in currency notes under a graduated increase in taxation on them, which will insure their retirement when no longer needed. Under this law the time can never come when money will be unobtainable, as it was in 1907. And since this condition cannot come, there will be no reason for any panicky scramble for cash. The "money panic" is a thing of the past.

Falling Production of Gold

BUT while we shall doubtless be able to handle safely a much larger volume of credit in proportion to the gold base, that gold base itself bids fair to increase much more slowly than in recent years. Gold represents the one simon-pure case of price-fixing. Being money itself, it cannot vary in price. In the mean time, the cost of producing gold has risen with the cost of producing everything else. The necessary result is a falling off in production.

Gold producers are urging the Government to pay a bonus, since there is no possible way of increasing the price of gold without disturbing the prices of all other articles. This is on the ground that gold is a war essential. It certainly is, but whether the immediate maintenance of production at the previous rate is a war essential is open to doubt. The annual production of gold is so small compared to the tremendous volume of gold now in use in the world that a few years of smaller production would not threaten the security of the money which is issued upon a gold base.

There has been a great increase in gold production during the last quarter century, not only absolutely but also in proportion to the world's necessity for gold. It is but natural that the pendulum should swing the other way some time, and it does not seem to us that the situation calls for any such radical action as the payment of a premium or bonus on gold produced.

Business After the War

WITH Bulgaria, Turkey and Austria out of the war and Germany in or near the last ditch, it is evident that peace might come at any moment. In how many parts of Europe and Asia will a condition of semi-anarchy then appear, and what will the Allies do about it? The problems of such a readjustment of peoples as is contemplated in President Wilson's fourteen points, will evidently be very complex, and the time necessary to solve them may be long.

The shift to a peace basis will involve a wide disturbance of industrial conditions. Labor displaced from war work will have to find its place again in peace work, and any such readjustment causes serious temporary dislocations. One method of alleviating these will doubtless be Government and municipal expenditures for needed improvements. These have been held in abeyance during the war and a great deal of money could be legitimately expended in improvements which would be well worth their cost to the public. Another method of providing needed work would be railroad improvements and extensions. With the Government in control of the roads, it would be easily possible to inaugurate work of this kind in ways which would eventually result in large public benefit.

An important factor in the post-war position of this country will be interest payments from abroad. We have cancelled $3,000,000,000 of our own foreign indebtedness, our private investors have loaned towards $2,000,000,000 abroad, and the Government has loaned $7,500,000,000 to various foreign nations and will loan more still. We are therefore due to receive from $400,000,000 to $500,000,000 of interest payments from abroad every year, which will be balanced by exports of either goods or capital and will thus greatly stimulate our foreign trade.

The Market Prospect

THERE is every reason to believe that we are now safely embarked upon a long upward swing in the bond market and investors may well take advantage of all reactions to add to their holdings of selected bonds. Preferred stocks backed by good earnings are subject to the same influences. Industrial preferred issues are in many cases now an exceptional bargain.

Many stocks will suffer from the readjustments necessary in getting back to a peace basis. Among them will probably be the munition, steel, chemical, sugar, can, packinghouse, coal, leather, shipping and equipment stocks. These issues have long been prominent and for a time their weakness will probably affect the whole speculative market to a greater or less extent. Eventually higher prices are to be expected for the best rails and public utilities, and for motor and tire issues, while the mail order, chain store, fertilizer, tobacco, gold mining and copper stocks should hold their own relatively well. The position of Southern Pacific is exceptional and we expect higher prices for it.

November 4, 1918.

NOTE.—Those interested in obtaining our views more frequently are referred to page 9a, advertising section.

F. D. Underwood on the Railroad Situation

Erie's President Speaks of Railroads in General and Erie in Particular—His Idea of Dividends

By GEORGE B. MOTT

"IT IS a custom of this office," said the President of the Erie to the writer, to keep every one waiting at least six minutes in order to impress him with our importance. I think I kept you waiting seven."

This with a twinkle. Needless to say, from the foregoing statement, Mr. Underwood does not attempt to impress one with his importance.

This article was intended to treat of the Erie's past and present and from these to indicate so far as possible the company's future. Mr Underwood's talk ranged from the causes of traffic congestion previous to Government control, policies, the railroad contract, human nature, the purchasing power of dollars as applied to labor and materials, the engineer, trackwalker, the stoker in the bowels of the ship, the milk-man, Palm Beach suits, water pipes and of men and things—and Erie.

Mr. Underwood has a keen sense of the proprieties involved in discussing Erie's affairs in any but the most general way while the management of the company's property is in Government control. However, his remarks are distinctly instructive as regard Erie's position as well as railroad matters in general:

Railroads Did Not Break Down

"It has been printed and commonly accepted that the railroad transportation system of the United States (to use a colloquialism) broke down a year ago. Is this true?

"Decidedly not. That statement is resented by every railroad man who knew the circumstances. The transportation did not break down, and the proof of that is that the original plant is handling more tonnage today than at any previous period. For obvious reasons, the Railroad Administration has neither increased the trackage nor equipment as a whole to any extent; hence the condition is that the existing plant and staff are moving a greater traffic without difficulty.

The transportation situation a year ago might be compared to a water pipe that did not discharge its functions on account of being stopped up. Removal of the stoppage, the water flows as usual. That was the case of the railroads. The flow of traffic became stopped for reasons already well known. A supreme authority was requisite to knock out the plug; to send cars where they were wanted and withdraw competitive features that worked for congestion. The result followed as a natural law. Under private ownership no one had authority to do these things. A one-man power in an emergency, wisely distributed through seven Regional Directors—all men of broad railroad experience—each one with power in his region. That is the answer.

"The railroads," continued Mr. Underwood, "are no more to be blamed for the congestion obtaining prior to the Government's assuming control of operations, than is a man who starts out under a fair weather forecast in a Palm Beach suit and a straw hat without an umbrella, and a rain-storm overtakes him. He cannot be accused of poor judgment, as he had attired himself for supposed conditions. The railroads had accepted business they were amply capable of handling under ordinary conditions. They had the locomotives, the freight and passen-

ger cars and trackage facilities, but they were confronted by conditions over which they had no control. At one time, about one-third of the freight cars owned by the railroads of the country were tied up on the Eastern seaboard, used as storage warehouses. It got to the point where no more cars could reach their destination and empties could not be returned. The neck of the bottle was stopped up. There were insufficient receptacles to receive its contents. Ships were not available.

Why Government Control Was Necesary

"Could the results obtained by the railroad administration have been obtained through private management?"

"Physically—yes; legally — no. The law, and railway regulation administered through and by the Interstate Commerce Commission and 48 State Commissioners, never made toward the dispatch of business. Their several and joint contributions worked in an opposite direction."

Frederick D. Underwood

"Is it your opinion that the railroads will go back to private control at the end of a certain period?" Mr. Underwood was asked.

"An answer to that is a pure guess. It is for the public to determine whether they go back or not. In my opinion, they should not go back as they were."

"Why not?"

"For the reason that under former existing conditions the value of railway securities was steadily waning; that condition invited a financial disaster. It was becoming impossible to keep up and add to the plant to fill the demands of the offered and increasing traffic."

"What is the remedy?"

"I give no remedy. One might venture a prediction that the railroads of the United States, under private control, would do better than they did if placed under the jurisdiction of a governmental body similar in scope to the British Board of Trade."

"What about the high cost of labor?"

"At the end of the war, labor must yield to the law of supply and demand and if necessary, the ranks of those engaged in railway service, can be recruited from those of the army. Half a million young men, inured to hardship, trained to obey, full of vigor and with pride in their vocation, will hardly return to their original grooves of employment, but will embrace the opportunity afforded by the high pay and favorable conditions prevalent in railway employ to join railway ranks. Railroads demand the best and the public should pay for the best.

No Alternative Possible

"Do you think that the Federal Administration of railways during the war is a necessity?"

"A very prime one. No alternative was possible. Time was the essence. The situation demanded a prompt remedy, attainable through no other medium."

"Bankruptcy was avoided by Government control—wages were advanced perpendicularly to meet existing conditions in other industries. Certain rules and restrictions were applied to the general labor situation which prevented, in extreme cases, labor profiteering. This situation could not have been met without utter ruin of the railroads under corporate management.

This apropos of snap judgment railroad criticism:

"We all mean to be fair, but we take

snap judgments. It reminds me of a committee who drew up a protest some years ago, stating that the ferry boats were rotten and unsafe. I told them that they had carried seventy million passengers without the loss of a single life or a scratch of the skin through fair weather, storm, fog, hail, snow and sleet. I asked them how they would suggest that the boats be made more safe. Since that time the ferries have carried probably about a hundred million more passengers with like result."

"I often think as I see a ship starting on its voyage across the ocean," indicating the view of the Hudson from his office window, "how powerless the ship's executives would be and how useless its tons of machinery, if the stokers came up on deck and refused to work. The ship could not be made to go. If the men who, in the wee small hours of the morning, bring your milk supplies over the ferries should become suddenly ill or drunk you would eat your oatmeal without cream."

Mr. Underwood stated that C. De Witt Cuyler, Chairman, was in charge of the Eastern railroads' interests in formulating the new contract with the Government. He added that there was a great deal of popular misapprehension as to the necessity of having these contracts signed immediately. So far as he was concerned, in the interests of his company, it was immaterial whether they were signed next week or in six months. The principles of the contract are established, and if the railroads need funds they have only to look to the Great Father in Washington and the funds are forthcoming.

Erie's Notes will be taken Care of

When asked as to the Erie's plans for meeting the company's note issues, Mr. Underwood said that there need be no apprehension on that score. Utimately they will be funded from the proceeds of the sale of a part of the refunding mortgage which was authorized just prior to the war as part of the plans of rehabilitation. These plans have not by any means been abandoned, they have been merely laid away on a carefully dusted shelf to refer to and proceed with at the opportune time.

Mr. Underwood is not an advocate of an intermittent dividend policy. He believes dividends should be inagurated only at such rate as can be maintained in bad years. In good years, stockholders should benefit by extra distributions.

He believes that the method now in vogue of initiating freight advances is radically wrong. Under this method, up to the beginning of the war, the railroads made application for advances when they deemed them necessary, providing facts and figures for the Interstate Commerce Commission to show the necessity. The Commission would suspend these rates pending investigation as to the facts. After investigation, which as a rule has been prolonged, the Commission granted approximately one-half of the relief asked for, which has always proved inadequate.

This method has resulted in the railroads losing compensation, during the heavy shipping period, to which they were entitled. Mr. Underwood believes that the statements submitted by railroad executives should be taken at their face value. Rates should be advanced in accordance with the necessity disclosed by the figures until the statements are proved to be false through investigation. The additional earnings might be impounded during the investigation, to be returned to shippers should the new rates prove to be unjustified. A method similar to that adopted in the case of the New York gas companies during the 80c gas litigation would be fair both to the shippers and the railroads.

E. L. Doheny Tells of Great Future for Oil

Entering Upon an Oil Era—Present Shortage Not Due to War Demand—New Sources of Supply—Peace Will Bring Cheaper Gasoline

By BARNARD POWERS

MR. EDWARD L. DOHENY, veteran oil operator and president of The Mexican Petroleum Co., Ltd., is easily the leading figure in the oil producing world. Were the purpose of this article biographical, a fascinating romance could be unfolded of his early trials and struggles and his later and stupendous successes. It was he who, like a modern Moses, struck the supposedly dry sands of California with his rod until the valuable fluid gushed forth and it was he who drilled in the tangled jungles of Mexico and unloosed "gushers" such as the world had never seen before.

But when the writer called upon Mr. Doheny the purpose was to obtain a statement from the great oil man of his views as to the present status of the oil industry and its prospects. He who would interview the president of Mexican Petroleum must rise early and be fleet of foot. For although well past middle age, Mr. Doheny travels on the Magic Carpet and the seven seas offer no obstacles. Today he is in Washington, tomorrow he is in Boston and just as you fancy you have run him to earth in New York, you read of him winging his way to the Golden Gate. At length fortune favored me, however, and I was graciously received by him in his roomy offices on the 28th floor of 120 Broadway.

"I only am here when I have work to do," he explained.

A Great Believer in the Future for Oil

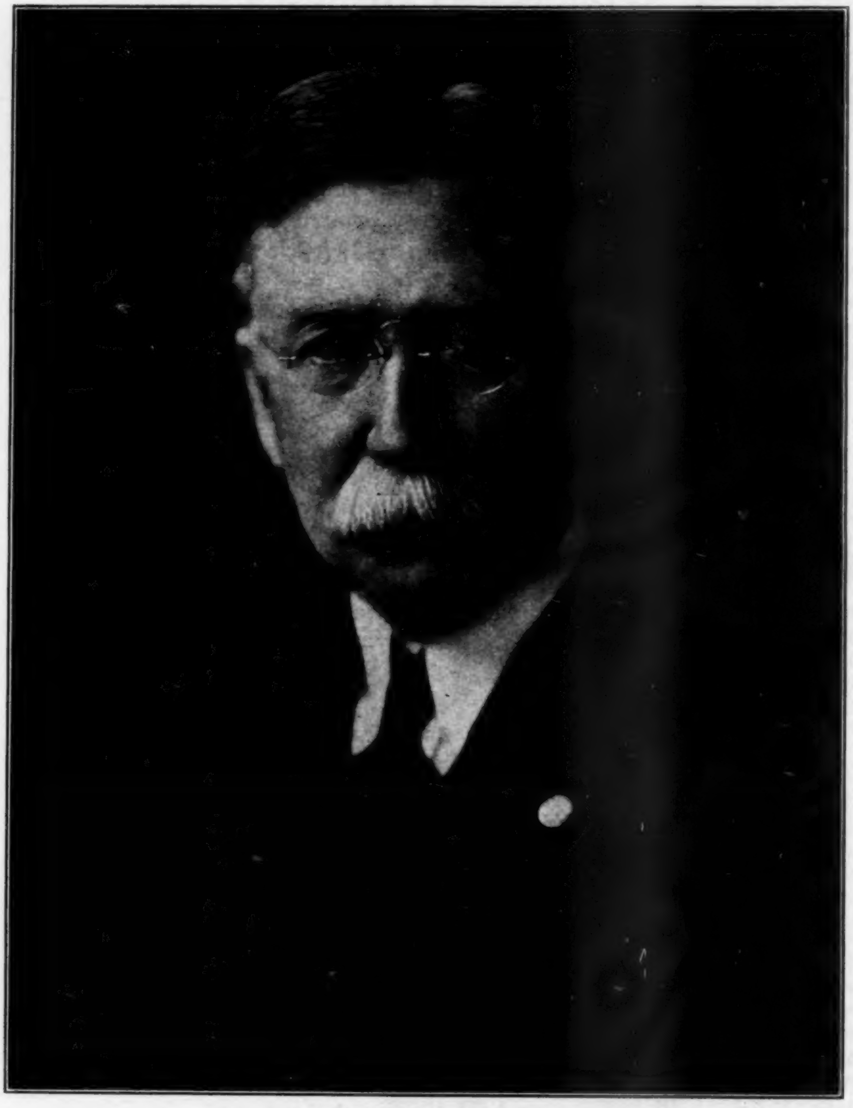
You have only to talk with Mr. Doheny for a few minutes to perceive that the cardinal principle of his business faith is the future for the oil industry. Mr. Doheny believes that we are just commencing an Oil Era that in a comparatively few years will eclipse by a wide margin any oil development which has gone before. Nor is his faith that of the fanatic, but rather the conservative business man who knows his subject thoroughly and has a thousand arguments and statistics to back up his opinions.

"Production does not equal demand in this country by 100,000,000 bbls. per annum," he replied in answer to my first question, "and that, in a nutshell, is the reason for the oil shortage today. I do not regard the war situation as primarily responsible for the oil shortage, for while there has been a big demand for oil for war purposes, you must remember that a great number of foreign markets that are large importers in peace times, South America, Germany, Norway, Sweden, etc., are shut off from our oil supplies today.

"When peace comes I look for the peace demand for oil to more than make up for the falling off in war demand. There will be the demand for farm tractors and agricultural machinery, pleasure cars, aeroplanes and motor trucks that will spring up and continue on an increasing scale."

Mr. Doheny expressed the opinion that the oil resources of the United States would not be sufficient to keep pace with the world's growing demand for oil.

"When the war is over," he said, "we may look for some increase in the present sources of supply in this country and there are brilliant prospects for the Ranger field in Texas, but the history of the United States in oil has been over a period of years, that new finds and the development of new fields, hardly more than makes up for



MR. EDWARD L. DOHENY

What the name "Rockefeller" is to the oil refining industry the name "Doheny" is to the oil producing industry. Mr. Doheny's bold and successful pioneering in this country and in Mexico has made possible the tremendous expansion which has characterized the oil business during the last decade. In an interview granted to a representative of THE MAGAZINE OF WALL STREET and which appears in this issue Mr. Doheny predicts an oil development and an Oil Era surpassing anything that has gone before. War has proved a great stimulator and the results will be reaped in the piping times of peace which now seem at hand.—Editor.

the decline in production of the old fields.

"We cannot depend upon the discovery of new bonanza fields in this country to increase our oil production, for the location of a bonanza field does not depend upon the location of known oil measures but upon the gas pressure and other factors which cannot be determined from a geological study. You can readily understand that when the output of oil reaches the proportions it has in this country, a little increased production here or there or in fact many places, makes little impression upon the grand total."

Where We Must Look for New Production

It was evident that Mr. Doheny does not look for any great gain in output in this country, at least not in the immediate future, and it was but natural to inquire where he expected the oil to come from to make up for the constantly growing demand. This carried the conversation to Mexico, the greatest known natural oil storage house in the world.

"At the present time," he said, "the United States produces 67% of the oil produced in the world. Mexico produces approximately 11%. It is estimated that Mexico has a potential capacity equal to that of the United States. But the development of that capacity is dependent upon the building of pipe lines and steamers to carry the oil away. Adequate transportation facilities is the key to the Mexican oil situation. It is claimed by Mexican oil statisticians and owners of Mexican oil properties that with full transportation facilities Mexico could produce under present development, 1,500,000 barrels of oil a day."

Where the Big Increase in Demand Will Come

Marine transportation will be the field which will show the biggest increase in oil consumption in the immediate future according to Mr. Doheny. Great naval fleets are now in the process of construction which will be oil burners exclusively.

"The demand for speed in ocean transportation, too," he said, "will be a great incentive after the war to the construction of oil consuming passenger and freight carriers. An oil-burning ocean liner will save from 15% to 16% in time now consumed in crossing the ocean and the manpower for the engine room will be reduced to the extent of 80 to 90%. Among the other advantages will be a great saving in carrying capacity, the elimination of dirt and noise and time saved in coaling."

Gasoline Will be Cheaper

The motorist who now writhes under the high price of gasoline will be interested to learn that peace will bring the price of this commodity down in the estimation of the president of Mexican Petroleum.

"Gasoline is now approximately 14% of the entire oil output of the United States," he said, "but it would be considerably greater if it were not for the pressing demand for naval fuel oil. Oil producers could very materially increase their gasoline output if they were permitted to do so, but of course the demand for war purposes has to be met first. The return of peace, in my judgment, will see an enlargement of the gasoline output with a consequent lower prices."

My summary of impressions gained from my talk with Mr. Doheny is that he believes that the oil industry and the sound and well managed oil companies are on the threshold of a period of great activity, development and profit. Although the oil industry has boomed in the war period, he believes its peace prospects are exceedingly bright because of the widespread knowledge of the value of oil as a fuel and the development in its use brought about by the war.

THINK THIS OVER

When a man is old enough to know something, he is really too old for it to be of any use to him.—*The Cashier*.

FINANCING YOUR BUSINESS

A New Department for the Capitalist, Banker and Business Man

Article 2—WHEN AND HOW TO USE YOUR BANK CREDIT

Approach the Bank With a Profitable Business Proposition, Something That is Self Liquidating—Keep Your Bank Credit as a Reservoir

By ALBERT K. ELLISON

THE banker of today holds a position of public trust. He is the center of the business community and without his services our intricate and involved modern life and business would be an impossibility. Banks follow business but without them a condition of stagnation occurs. The bank collects the funds of a community, centralizes them and as a result they are in a position to be used to the best advantage for the community.

The banker zealously and with jealous eye guards the funds entrusted to him. But in order to render the varied services which a modern bank is now called upon to do the banker must keep his funds moving. That is to say, he must within the restrictions required by law have them loaned to business at a profit.

Banker as a Merchant

He is a merchant, therefore, just as much as the smallest store keeper in the community. He buys credit instead of goods; he endeavors to sell credit instead of goods at a profit. By services which he can render, he secures deposits and these deposits he loans at a profit. Previous to the inauguration of our present banking system, it was the custom of our large metropolitan banks to seek deposits from country banks. There was strong competition for such deposits. They both advertised and had traveling representatives. They both rendered service and paid some interest, generally 2% on such deposits. Obviously such deposits had to be kept moving at a slightly increased rate of interest.

It is the desire of every banker to build up the deposits of his bank. But it would be of no use to build up his deposits unless he could in turn loan them out at a profit. It follows then that the business man seeking credit is always welcome. But the bankers' catechism is rigid and his requirements very strict. It is of no use to approach him unless you have a proper reason why he should extend you credit and above all you must have a business proposition.

The bankers first obligation is to his depositors. They have placed their deposits in his bank first because they consider them safe there; with the honest business man, service is of secondary consideration. Therefore the banker by force of the principles of commercial banking, which requires that the bank be kept in a liquid position, must perforce limit the bank's loans to short periods. The bankers second obligation is to his stockholders. They naturally expect both that the bank will be conducted on a safe and solvent basis and that at the same time it be operated at a profit to them. Here again the bank is similar to any business enterprise.

It follows then that not only must you have a good business proposition when you seek a loan at the bank but you must as well have one that by its nature is self-liquidating within a short period. The bank will not loan you money if you expect to use it for capital expenditures or permanent improvements. The return from such an

expenditure is, in the natural course of events, too long in coming to satisfy the bank's requirements. Its deposits are constantly shifting, rising and falling by seasons. The bank must always be in a position to pay its depositors on demand. It is necessary then that it loan for short terms only so that it will always have a proper balance with which to meet demands made upon it.

If you have a proposition that will require a period of more or less long duration before you will be in a position to pay a loan back then go to other sources of credit; to the private banker, who will, if the proposition suits him, properly finance it with bonds or stock. Harriman did not go to the bank when he wanted credit for the U. P. He properly went to private bankers as he wanted money for permanent improvements.

Again, do not go to the banker for a loan if you wish the money to pay an existing creditor. That would be a simple transfer of indebtedness with no evidence to indicate that you could pay off the loan from the conduct of your business. He will turn down your request for credit, and, moreover, such an attempt would only hurt your future credit. And of course if you have a business that is going backward instead of forward, the banker is going to go mighty slow before extending you credit. It would be practically useless to go to him under such a condition.

When to Borrow

But if the needs of your business are such that you are temporarily pressed for cash then you may properly seek credit at the bank, providing of course you have a proper basis for credit. A merchant may have tied up his cash in the purchase of merchandise or a manufacturer in the purchase of raw materials and needs cash for payrolls or other running expenses. Or either one may have good accounts outstanding but in order to fill new orders must purchase raw materials for which they may need money temporarily. Or still again, a manufacturer may feel that his market is going to advance. He estimates what his requirements will be, and seeks the bank's assistance in financing their purchase. In all such cases credit may properly be asked. But in every case and particularly the last, he must show that his business is in good financial condition and the statement of his financial position must be such that current or quick assets exceed his current or quick liabilities by a proper amount. Of course it is needless to say that in any event you must inspire the bank's officer or officers with confidence in your ability to conduct your business at a profit and to pay off the loan at maturity.

Formerly concerns which had been in the habit of meeting their maturities regularly and which had built up a splendid line of credit would not render the bank a statement of their financial condition. Oftentimes even a bank's depositor might request a loan but without any intention of rendering a statement even though they were asked. As a general rule such concerns were large and wealthy and the banks largely in fear of losing their deposits would not think of refusing the loan. A number of banks lost money through the H. B. Claflin failure a few years ago simply because this concern through its long and successful career had built up a splendid credit rating and did not as a general rule present a statement of condition. Few thought it necessary to see one Its commercial paper sold on sight.

But today it is different. No matter what the previous credit of a concern may have been the banker wants to see a statement of condition, and as a general rule this statement must have been compiled by an independent auditor. Therefore the person seeking a loan at a bank, and particularly if he is not well known and has not asked credit before, must render a statement of financial condition. His ability to get it under the conditions above quoted depend to no small extent on the state of his current or quick assets. The banker is interested only to a secondary degree in fixed assets. Current assets are those which by their nature are liquid and can be turned into cash at near their face value

within a comparatively short time. Obviously current assets include cash. They also include accounts receivable and bills receivable. It is to be taken for granted in this that these two items are listed at their face value and will properly be paid. Inventories, too, are included, although in most cases not considered to the same extent as the other two. Marketable securities also may properly be included, that is; securities which have a ready market.

Your statement must show a greater amount of quick assets than current liabilities. Such liabilities include such items as loans and notes payable, accounts payable and in fact any indebtedness incurred in the current conduct of the business, but not a funded obligation. Just what the proper relation between the current assets and the current liabilities of any particular concern may be may differ with different bankers and with different concerns. Some financial experts feel that it should be as three to one while others feel that a ratio of two to one is sufficient. A particular banker may require a greater or lesser ratio. His decision on this may properly be based on other factors presented by the person seeking a credit.

Marketable Securities

Obviously you may properly, and with a good prospect of success, seek a loan from a bank if you have good readily marketable securities in the form of stocks and bonds which may be pledged as collateral for a loan. The banker is perfectly willing to render this service to a depositor and make the loan on a suitable basis because he knows that if the loan is not paid at maturity it is a simple matter for him to get his money through the sale of this security.

Loans may properly be sought under any of these conditions or any combination of them. Thus in a western city recently three yong men had an opportunity of securing an old established grocery business. One of the owners had died and his half interest was offered them. The business was incorporated and he had owned half the capital of $20,000. All three were without the necessary funds so they tried the banks. They were refused both because they were not well known and because the other partner owned half the stock. They could not get control therefore and it was felt there would be friction and the older partner, who was president, might be a drawback. In other words, they did not have a proposition which in the opinion of the banker would show quick and profitable returns. They secured the money with which to purchase the stock from another source.

After having been in the business for about fifteen months they had an opportunity of securing the rest of the stock from the other partner. This would give them control. They went to the bank with which they deposited, which was one of the banks which had previously turned them down. But this time the loan was not refused. They now controlled the business so the bank by a loan to the company—not to the three individuals but with the note endorsed by them—advanced them the money with which to buy the additional stock. This stock of course was pledged as collateral. This time they had a business proposition which they had proven that under their management was very profitable. The business during the period they had been in charge had earned net profits of about $5,000, this in addition to salaries which each of them had drawn. The concern also could show quick assets largely in excess of current liabilities. The loan was made for four months. A part of it was paid off at the end of that time and a new loan for four months for the remainder made. A part of this will be shortly paid when a new loan will be made at the maturity of which the full loan will probably have been paid.

The business man may properly approach the bank for a loan under the conditions enumerated. There are exceptions of course. But these exceptions are in cases where the applicant and his high character, ability and credit is so well known as to warrant the bank in extending the credit. But in every case the banker must be sure of the ability of the borrower to pay.

But while you may properly apply for credit with the probability of success, it is well to keep your bank credit as a sort of a reservoir. The successful hydro-electric enterprise always has a reservoir built well back towards the source of its water supply. After this is at first filled it remains so until certain summer months when the actual flow of water decreases. Then the gates of the reservoir are gradually lowered and the flow of water to the turbines kept as nearly normal as possible. As fall comes and rainfall increases, the natural flow resumes and the reservoir gradually fills again to be ready for another temporary water emergency.

A Credit Reservoir

So also the business man should use his bank credit as a reservoir ready to use in a temporary emergency either to take advantage of opportunities in his markets, to discount bills when he can do so profitably or to use at times of other temporary demands for money. If he uses it indiscriminately he may be caught with no reservoir upon which to draw in time of need or opportunity.

The services which a bank may render outside of that of making loans to its depositors are almost too numerous to mention. Years ago this service was largely confined to taking care of deposits, checking privileges, discounting bills, making collections, acting as transfer agent and paying interest. With the broadening out of interest however, its field for service has undergone tremendous development. Most large metropolitan commercial banks have established service departments. To this department the depositor can always come for information pertaining to business conditions and statistics of all kinds. Some of these have established foreign trade departments headed by experts who are always at the service of depositors and ready to give information to the prospective seeker for foreign business not only on the banking end of it but on methods to be used, how best to approach it, etc.

The smaller banker cannot afford to maintain such costly departments, but he keeps well informed on business conditions and is always ready to give whatever advice he can on business matters. Credit information nowhere else available is frequently given and there is just as much reason for the smaller business concern making use of such information when useful in his business as for the large concern, the credit departments of which freely take advantage of.

In fact the modern banker is a source of advice, counsel and help in many ways. A man proposing to establish a new business in a community should always, if possible, approach the banker first. There is much assistance he can give if the proposition appears meritorious to him. No man in a community is better able to give advice on investments than the banker and through him investment can be made. And in approaching private bankers, the introduction by the banker is always helpful.

Banks also assist in the underwriting of stocks and bonds. Few private banking houses are big enough to advance money on securities which they underwrite from their own resources. The method of procedure usually is for the underwriter to deposit the bonds as collateral, the banker loaning the money paid out to the enterprise and then to go out and quickly sell the securities. From the proceeds of this sale, the loans are paid, and profits taken. But of course on all such cases the banker is as sure as he well can be that the house and its selling force can quickly distribute the securities.

MONEY--BANKING--BUSINESS

The Banks and Stock Exchange Credits

Restriction of Collateral Loans—Why Necessary—Credit Resources of the Banks—Trying to Retard Inflation

By WILLIAM T. CONNORS

THE ruling of the Federal Bank, after an exhaustive discussion of the subject at a conference of leading bankers and Stock Exchange officials, to the effect that the banks shall lend on Stock Exchange securities as collateral to an extent of only 70% of their value where in most cases 80% had previously been allowed, has had the effect of slightly reducing Stock Exchange loans and thus checking the rise in the prices of "peace stocks" that would naturally have greeted the rapid breaking up of Austria and Turkey and the steady advance of the Allied troops on the Western front.

Many of the more conservative houses had not been borrowing to the extent of 80% of their callateral. In many cases, in fact, their loans were far below the new figure of 70%, so that customers who have been called upon for larger margins because of the new ruling have frequently been able to shift their accounts to this stronger class of houses, which were able to furnish the necessary money to carry the securities without requiring the customer to make any additional deposits.

Also a great many investors have always been accustomed to keep themselves in a position to deposit 30% to 50% margin on their securities whenever necessary, or in some instances have carried deposits of that amount or more with their brokers.

Why the Change was Necessary

Nevertheless the net result of the new ruling has been a decrease in loans on Stock Exchange collateral. Why was this necessary? And is the reduction of funds available for Stock Exchange purposes likely to go further?

In times of peace the supply of "money"—by which, in this sense, is meant both currency and bank credits—has a natural limit, fixed by the amount of gold available and by laws which regulate the proportion between this gold and the currency and credit which may be based upon it. When the demand for money and credit approaches this limit of supply, the money rate automatically rises, just as the price of anything else rises when demand threatens to exceed supply. Then the higher money rate operates to check advances in security prices—since it costs more to carry them—and likewise checks the rise of commodity prices and the expansion of any business enterprise which is dependent upon borrowed money.

In this way the situation automatically adjusts itself. The demand for money becomes less, and eventually money rates return to normal again.

But in war these natural forces cannot be allowed full play. We cannot allow the expansion of our war business to be checked by a high money rate. On the contrary we must see to it that every business activity essential to the war has an abundant supply of money and credit at reasonable rates. This involves inflation, which in its turn involves an eventual deflation—always an unpleasant process, since it means falling prices and decreased business activity. But the war comes first. The problems of deflation must be postponed until the war is past.

In the early months of 1917, when we decided to jump into the war with

both feet, our position as regards money and credit was exceptionally favorable. Not only had Europe sent us an immense quantity of gold to pay for the war supplies it had been buying from us, but we had also rearranged our banking methods under the new Federal Reserve System so that we could make the same amount of gold go a great deal further as a basis for bank credits.

The resources of the Federal System for credit expansion had then scarcely been scratched. The law requires the Federal Reserve Banks to hold reserves of 40% in gold or lawful money against their issues of currency notes, and reserves of 35% against their deposits. In March, 1917, reserves against notes and deposits combined were over 85%.

Falling Ratio of Reserves

The Federal Board immediately set out to prepare for the great credit expansion which must come, by gathering into the system as much gold as possible. In various ways over $1,000,000,000 of gold and gold certificates previously outside the system has now been transferred to Federal Bank vaults. But in spite of this great increase in total reserves, the per cent of reserves against notes and deposits has fallen below 50. Month by month, the fall has been as follows:

March, 1917	**86%**	**January, 1918**	**64%**
April	**84**	**February**	**66**
May	**85**	**March**	**63**
June	**86**	**April**	**62**
July	**84**	**May**	**62**
August	**85**	**June**	**62**
September	**80**	**July**	**60**
October	**73**	**August**	**57**
November	**67**	**September**	**53**
December	**64**	**October 25**	**49.6**

Federal Reserve currency notes outstanding Feb. 1, 1917, were about $262,000,000. They are now over $2,500,000,000.

The fact that reserves have now fallen below 50% of notes and deposits has naturally attracted attention, in view of the fact that there can apparently be no end to the declining tendency while the war lasts. But the banks still have considerable elbow room. Moreover, the law provides that the Board may suspend the reserve requirement of 40% on currency notes, establishing a tax of 1% annually upon the deficiency down to 32½%, and below that a tax increasing not less than than 1½% per annum for each 2½% that the reserve falls below 32½%. These taxes would increase interest rates to borrowers. The Board may also suspend the 35% reserve requirement against deposits.

If necessary, Congress would undoubtedly reduce the requirements still further, as a war measure; but it is unlikely that it will be necessary.

Individual member banks, also, have a resource for economizing reserves which I have not yet seen commented upon. In central reserve cities, for example, the required reserve on demand deposits is 13%, but on time deposits only 3%. Time deposits comprise those payable after 30 days, all savings accounts and certificates of deposit subject to 30 days' notice, and postal savings deposits. At present New York member banks have $3,827,000,000 of demand deposits and $147,000,000 of time deposits. Without doubt a considerable fraction of the demand deposits could be changed into time deposits if such action should become necessary, thus effecting an important saving in reserve requirements. And similar action could be taken throughout the country.

Ways will be found to increase bank credits as much as may be necessary without putting upon occupations essential to the war the handicap of high interest rates.

Retarding Inflation

Nevertheless, it is important to carry on the war with the smallest possible credit inflation—for the inflation itself does nothing toward winning the war. It is actual work that does that, not the creation of the pretty soap-bubbles of credit. So far as increased credit expresses itself in higher prices, it is valueless. A thousand dollars worth of cotton at 20 cents a pound will do just as much toward the war as two thousand dollars worth at 40

cents—the weight of the cotton is the same.

And it is also true that whatever part of this increase in credit and currency is filtering into non-essentials is retarding the war instead of promoting it. For that reason the strong hand of the Government is reaching out to throttle the non-essentials, and one way of doing that is to cut off their supply of credit at the source—the banks.

Here, then, is the reason for limiting Stock Exchange credits. An investment market is in the highest degree essential, in war as in peace; but speculation, although essential in peace, when new enterprises must constantly be promoted through the sale of new and untried securities—which are necessarily speculative—becomes a non-essential in war, when the war should be our only new enterprise.

Investment and speculation are to a great extent inseparable. There can be no hard and fast line drawn between them. So it is impossible to suppress the one for the period of the war while encouraging the other. But the banks are called upon to do whatever they can to encourage investment and discourage speculation.

Many legitimate investments are carried largely on borrowed money. Millions of Liberty Bonds are so carried. The banks themselves are constantly taking war paper to the Federal Reserve Banks and borrowing money on it—that is, getting currency notes on it. In fact, 80% of Boston and New York discounts now consist of war paper. Many investors have borrowed money on their corporation bonds and stocks in order to buy Liberty Bonds.

Confining Credit to Investments

It would be quite out of the question, therefore, to shut off supplies of credit from all Stock Exchange collateral. What the banking interests and the Stock Exchange in cooperation with them, are trying to do is so far as possible to limit the use of credit on the exchange to investment operations as distinguished from speculation.

If the interest rate were to be raised, that would bear just as heavily on the investor as on the speculator, and it would also tend to handicap the business men who are borrowing for war industry. The reduction of loans to brokers from 80% to 70% of the collateral deposited is not ideal, but it is nearest approach to the ideal that bankers have been able to conceive as a practical policy.

Whether the reduction will be carried further or not undoubtedly depends on whether the present rule is sufficient to check undue speculation. No one could object to a gradual advance in investment securities based on their peace prospects, in cases where peace is likely to benefit them. But it is unthinkable that speculative pools should be allowed to use the country's money, in this time of scarcity and stress, to carry prices of their favorites above a legitimate investment level.

That will not be permitted. If hints are not enough they will be followed by kicks.

REGARDING PRINTERS

Speaking on "Printing and Lithography" at the recent convention of the American Bankers' Association, Mr. George Lewis, manager of the department of purchasing and contracts of the Association, made the following trenchant observations in regard to printers:

"Over the window of a little shop in one of the outlying boroughs of New York there has appeared, for a good many years, a sign lettered 'Kick the Printer.' I have never had the opportunity to ascertain whether the printer himself rejoiced in the name of Kick, or whether his shingle was an invitation to the public to use its number ten boot on the aforesaid printer either before or after, preferably after, he turned out a job of printing. In either event, 'Kick the Printer' always struck me as a safe and sound maxim for handling the brute.

"In dealing with a printer there are two important things to remember: First, he almost never follows written instructions if the instructions are absolutely right; and second, he always follows written instructions to the letter if they happen to contain an error. Once we grasp this very simple twist of the printer's mind, the rest is easy."

Leading Opinions

About Financial, Investment, Banking and Business Conditions

Gates W. McGarrah on Financial Situation

In a stirring article entitled "The War Today and the World Tomorrow, publishes in *The M. & M. Journal,* Gates W. McGarrah, president of the Mechanics & Metals National Bank of New York, recapitulates the tremendous work America has done and is doing as her part in the great conflict. Speaking of financial conditions here he says:

"In the United States there has been a certain degree of inflation. But up to the present time—we can say this with satisfaction—it has not been as a result of the issue of large quantities of currency based on government bonds. Inflation to a certain point is inevitable in war time. Nor is it altogether without its compensating features. Under normal conditions no one, certainly no banker, would believe in inflation. Nor under ordinary circumstances would he believe in killing men. But we do believe, while the war lasts, in killing the German invaders of France, and following the same reasoning we must be reconciled to inflation. It must be kept within reasonable limits, of course, if financial danger is to be avoided now and after peace is declared.

"The situation confronting us, as bankers, is therefore one that warrants our best endeavors, to the end that everybody, everywhere, may be made to appreciate to what degree a healthy state of American finance can be assured only by patriotic co-operation all along the line. There is need at the present time for the bankers of the United States to take a very broad view of affairs, for they are no longer provincial and local purveyors of credit. They are the money lenders of the world. Ever since the outbreak of the war in Europe, in August, 1914, the part played by American bankers in world affairs has been a rapidly widening one. By reason of their courage and genius, in grasping from the first the opportunities presented by the great war, America in a few short years has become the undisputed money center of the world. To maintain this position is one of our greatest problems"

Future of Shipping

The problem of what will happen to our shipping industry after the war is one that vitally concerns both the shipper, the shipbuilder and also the investor in shipping securities. At a recent meeting of the American Manufacturers Export Assoc. the matter was discussed at length. The concensus of opinion was that steps must be taken to protect our merchant marine fleet now building and on this point E. M. Herr, president of the Westinghouse Electric & Manufacturing Co., pointed out that to date upwards of three billions has been appropriated and over eight hundred shipyards employed.

Continuing Mr. Herr said:

"This great merchant fleet must be completed regardless of the termination of the war. Our country must face the possibility of war in the future, for which we will need ships to furnish transport service, preserve trade balances and keep our foreign trade. These ships, largely built by the Government and adapted to war needs in case of necessity, must be maintained and kept at high efficiency at any cost.

Louisville *Times*

MORE GERMAN STRATEGY

"Government ownership of transportation facilities has never brought cheap rates and efficient service, and in my judgment never will—especially under a republican form of government, or in fact any form of government now to be considered. Why government ownership is inefficient has been so thoroughly discussed and clearly explained that it is unnecessary to here repeat the argument. We must, therefore, turn to private ownership, for the successful operation of our merchant ships. Under private ownership, for successful results our present shipping laws must be modified and adjusted to the needs of overseas traffic so that our ships can be manned and operated in competition with those of other nations."

Govt. Will Protect Steel Industry

The steel industry is greatly interested in more or less definite assurances received from Washington that to protect industry the Government purposes to retain a measure of control for a period after peace becomes assured, says a Pittsburgh despatch to *The Wall Street Journal.* The War Industries Board is definitely constituted for six months after peace. What its real power would be is another matter. It is one thing for the steel producers to accept mandates of the Board intended to help the country in prosecuting war, and another thing to act upon mandates calculated to help themselves.

N. Y. *Tribune*

THE PART OF THE PEACE TERMS THEY MIGHT BE ALLOWED TO DICTATE

War control of prices has involved the fixing of maximum limits, but what would be required to aid producers in the transition period would be the fixing of minimum limits, this being a distinction which the Attorney-General might not be disposed to overlook. In any event, however, the War Industries Board might act as a market leader, by representing the Fleet Corporation and the Railroad Administration in their large purchases of steel, thus possibly setting up prices which the trade at large would accept.

Production of pig iron and steel ingots is in the main at a somewhat greater rate than in September, when so large a gain was made over mid-Summer rates. Influenza has had some effect in curtailing output, but the tonnage loss from that cause is not large.

No reflection whatever of peace negotiations is found in the manner in which the Government is placing orders for steel or regulating the distribution of material. Additional regulations have been prescribed for the conservation of steel, especially in the matter of tin plate consumption in the packing of non-perishable foods, and in the manufacture of steel pipe by the butt weld process, this restriction being largely for the purpose of saving steel for the manufacture of oil country goods.

What some steel producers regard as a sort of tangle has been produced by certain new interpretations of the priority regulations but the War Industries Board seems confident that no trouble will result.

"Coal Famine Danger Past"—Garfield

Manufacturers and householders may look forward to approaching cold weather with equanimity for there is no danger for a coal famine this winter, according to a statement issued by Fuel Administrator Garfield.

Coal for household purposes called for in Dr. Garfield's budget for the year ending next April is 51,258,029 tons. The apportionment of allotments and the extent of the deliveries up to this time are:

	Annual allotment	Deliveries already made
New England	10,331,000	5,537,779
Middle Atlantic....	31,314,754	15,246,331
Virginia	102,400	73,640
Western	3,381,945	1,835,398
Northwestern	2,374,000	1,701,561
Canada	3,602,000	1,963,700
Export	51,930	29,742

"The fuel administration approaches the winter season well organized with stocks of coal on hand far in excess of the stocks of other years," said Dr. Garfield. "We are ready for an unusually severe winter, but we are still and shall continue to be dependent upon the cooperation of the people in conserving fuel and upon the several agencies concerned in the production and transportation of coal to enable us to carry through our programme to the end of the year."

Mr. Shonts Scents Disaster

If the original manuscript of Theodore P. Shonts's annual report to the stockholders of the New York Railway Company is not a tear-stained document then it must decorate the archives of the surface lines as an unimpeachable testimonial of the wonderful self-control of

President Shonts, observes the N. Y. *Tribune*. He tells why this is a fact in the report, copies of which were recently distributed for publication.

Mr. Shonts declares plainly that a receivership is inevitable unless the city transportation lines are given permission to extract something more than a 5 cent fare from strap hangers.

Materials, Mr. Shonts says, have advanced in price until they exceed by from 100 to 300 per cent the pre-war prices. Increased pay and bonuses to employes represent an annual outlay of $800,000. This sum, with further increases made effective on June 30, 1918, means, "on the basis of a complement of employes necessary to give adequate service," as Mr. Shonts phrases it, an increase in the annual payroll of $2,400,000.

The result is inevitable. Reserves have been depleted and available funds from all other sources are being used up in an endeavor to maintain the service until an increased fare can be had. Unless this is speedily forthcoming a receivership cannot be avoided, with its attendant losses and probable disruption of service, as under a receivership a large portion of the service now rendered by the company would be discontinued.

The report also explains that during the year the engineering firm of Ford, Bacon & Davis made an independent valuation of the company's property, which shows the reproduction cost of the physical property of the company, based on normal average prices, less depreciation, to be approximately $70,000,000. Mr. Shonts appends this statement:

"A fair return on this amount would enable the company to continue and to improve its service, pay interest on its bonds and a small dividend on its stock."

"Prosperity Ahead For Packer"—T. E. Wilson

In view of the loud wail in the public prints regarding the small margin of profit the packers enjoy, it is interesting to find one of them who foresees something ahead other than ruin.

Thomas Wilson, president of Wilson & Co., anticipates a long period of uninterrupted prosperity for the packing industry under after-war conditions. Mr. Wilson conferred in New York with leading bankers regarding financing which company has under consideration, owing to heavy monetary requirements attendant upon tremendous volume of business now being handled.

"Restoration of normal conditions," said Mr. Wilson to a representative of *Dow, Jones & Co.*, will open the flood-gates to an unprecedented demand for meat from foreign countries which will sweep into the United States as the single available source of supply. Even the Scandinavian countries, which in pre-war years were able to export meat products, have been stripped of their live-stock resources and must turn to this country for replenishment.

"As a result of the scarcity of shipping tonnage and the many other difficulties of transportation incident to the war, Europe has received only a small percentage of its meat requirements and is eager to enter the American markets on an enormous scale. Fortunately, the United States has responded to the call of the Food Administration. Our herds of breeding cattle are larger than ever before. Consequently, production of meat supplies has been greatly increased. In view of the prospective demand, however, I cannot foresee lower meat prices in the near future."

$400,000,000,000 of Liberty Bonds?

Suppose it to be true that our national wealth is 220 billions and our national

N. Y. *Times*

THIEF: "HURRY UP! WHAT DO I GET FOR IT?"

annual income 40 billions, property and labor incomes included. So, in the last number of *"The Economic Review,"* Professor Phelan, of the University of California, estimates, attempting to be safely conservative.

It follows, as he believes, that our present borrowing power is not far short of 400 billions. Unlike any individual borrower, the government, he argues, may pledge not merely the income from property but also the income from labor. Ultimately the government pledge is a pledge of the revenues which are at its disposal. With a national income of 40 billions as security for an annual charge of 20 billions, the pledge would offer a 50 per cent margin of safety.

The [illegible] truth is that if America cannot borrow four hundred billions, or borrow much of anything, abroad for its present war, it will have to do whatever borrowing it does at home, precisely where, if it collected the funds by taxes, it would have to get the taxes. We are lending abroad, not borrowing abroad. We are financing others' wars in addition to our own.

But we can still offer, we will agree, security for 400 billions of bonds if we can anywhere find the investors to buy them. We can pay —we will say—if we must, 20 billions of interest. But can we borrow 400 billions at home—having no other place to borrow them? Perhaps; only in how many years? Just 20 years, inasmuch as 20 billions is by assumption our utmost possible limit of net current revenues. But equally well can we tax for 20 billions a year, since by the same assumption this is our available margin of gross revenue above our operating expenses, our current and pressing necessities of living. Whoever can cash bonds can pay taxes. Neither thing can any one do excepting out of his surplus of current income over current expenses. Either thing can be done if there is this surplus, the one equally with the other.

St. Joseph *News Press*

YOU ARE KNOWN BY THE COMPANY YOU KEEP

Great Britain Looks Ahead

Whatever other belligerent nations may do it is obvious that Great Britain does not intend to be caught napping industrially or economically after the war.

Problems of finance in connection with the work of reconstruction are discussed in a statement by Dr. C. Addison, the British Minister of Reconstruction. He says:

"The war has made enormous demands upon our financial resources, both national and individual. From the national point of view the financial problem of reconstruction may be defined thus: How are we to restore the balance of our overseas trade? We shall have to reduce our imports to the barest needs and so to stimulate our production as to pay for our imports and for the interest due on foreign loans.

"The best means of doing this is now under investigation by a strong committee working in concert with the Treasury.

"All this will continue to make much larger demands than formerly upon the working capital of business firms of almost every kind, and to keep it locked up for longer periods.

"To what extent will the banks and other institutions that now exist for financing the trade and commerce of the nation be in a position to meet this increased demand? And, in the event of their not being able to meet it, what alternative source of credit for essential commerce and industry can be turned to account? In the event of shortage, how shall the best allocation be made of such capital as may be available? These are some of the questions which are being threshed out by the committee on financial facilities."

Roads Received $231,788,639 Net

Further details of the financial situation of the railways under Government control have been made public by Director General McAdoo. Of the $421,550,598 which Mr. McAdoo recently announced had been advanced to the roads in the last seven months $231,788,693 was over and above the amounts certain transportation companies and the American Railway Express Company had turned back to the Railroad Administration from their current funds and surplus earnings. The railroads turned in $169,050,000, and the express company $20,711,905.

Of the advances the principal sums were the loan to the New Haven system for redemption of collateral trust notes ($43,964,000), and the loan to locomotive and freight car builders for rolling stock for various system ($658,433,628). In addition to these items, the net outlay by the Government was $129,391,065.

Of the $169,050,000 turned back by the railroads, and the $20,711,905 handed in by the express company, $91,157,875 has already gone back to the roads subsequently calling upon the Railroad Administration for considerable advances in addition to the return of the amounts which they had deposited.

BONDS AND INVESTMENTS

Opportunities in Convertible Bonds

Two Star Performers, Mexican Petroleum 6s and So. Pacific 5s—Copper, Railroad, Industrial and Public Utility Convertibles—Bonds for the Specvestor

By JOHN MORROW

DISCERNING students of investment and speculative conditions have been close followers of the possibilities in convertible bonds, but to the general public these issues have not always made the appeal that they deserve. A convertible bond, when issued by a company in good standing, combines the attraction of a safe commitment of funds at a decent yield with the possibility of higher prices through the conversion rights.

For the last year and a half, in common with other investment securities, convertible bonds have been more or less neglected, and their market prices have suffered in proportion. What buying there has been, has been done largely with a view to investment return rather than for price appreciation. The recent strength in the stock market has forcibly recalled attention to the chances for market appreciation that lie in convertible bonds, and their quotations vigorously responded. Advances in prices ranged all the way from 4 points to 75 points, from the low levels made earlier this year.

Two Star Performers

The star performers have been the issue of Mexican Petroleum 6% first lien and refunding convertible bonds, due 1921, and the Southern Pacific convertible 5s, due 1934. The last named issue advanced from a low of 86⅛ to 105, the rise coming in connection with the big move in the common stock of the company. These bonds are convertible into stock at par at any time prior to June, 1924. At 105 these bonds may seem rather high, but the purchaser is assured of an income return that is something less than 5%, and a high degree of safety. If Southern Pacific stock moves into new high ground, even 105 for these bonds will not be an overvaluation. Of course, they are not selling strictly on an investment basis at these high figures but their quotations are measured by the advance in the stock, and the attractive possibilities contained in the conversion privilege.

Southern Pacific has another convertible issue, the 4s, due 1929. Around 83 these bonds show an income return of 4.85% and a yield, if held to maturity, of 6.3%. This issue is convertible into common stock before June 1, 1919, at 130. At present writing this conversion privilege cannot be profitably realized upon, but if Southern Pacific stock continues its upward move, the conversion price may perhaps be approached.

As far as actual price movements are concerned, the action of the Mexican Petroleum 6s, 1921, has been sensational. From a low of 105¼ this year, these bonds sold up to 181½, a gain of 75 points. There is only a comparatively small amount of these bonds outstanding, and the breadth of their market cannot be compared with that of an issue like the Southern Pacific convertible bonds.

All classes of corporations have resorted to the convertible bond as a medium for raising funds. Because a corporation of high repute has sold bonds to which there was attached a conversion privilege, is far from a confession of an impaired credit position. Naturally not all convertible bonds are attractive. Nice discrimina-

PRICE RANGE OF ELEVEN REPRESENTATIVE CONVERTIBLE BONDS

	YEARLY RANGE								1918 MONTHLY HIGH AND LOW Range for 1918									
	1914		1915		1916		1917		Jan.-June		July		Aug.		Sept.		Oct., 1918, to 25th inst.	
Company Due	H.	L.	H.	L.	H.	L.	H.	L.	H.	L.	H.	L.	H.	L.	H.	L.	H.	L.
Atchison 4s, 1960	99⅝	89¼	110¼	92⅜	108⅜	101⅜	107	79	87	82	85	84	No sales		86	84	96	85⅝
B. & O. 4½s, 1933	94¾	83½	97¾	82½	98⅜	93⅜	97⅛	69½	80⅝	76½	79¾	77½	77	76	77	75¾	85¾	76½
C. & O. 4½s, 1930	86½	67½	90	70	89	83⅛	86½	65½	76	65½	76	74	77¼	75¾	77½	76	80½	76
C. & O. 5%, 1946	Not issued		Not issued		98	92⅛	94¾	71⅜	82⅜	76	81½	80½	81¾	80	81⅝	79⅛	86½	79
N. Y. Cent. deb. 6s, 1935	Not issued		114	99½	117⅞	110⅞	113⅜	87	95	91½	94½	93½	94⅛	93¾	94	93	98½	93⅜
Southern Pac. 5s, 1934	103⅜	94	107⅛	95¼	107⅞	102½	104½	85	95	86⅛	91¼	90⅛	92⅛	90½	92	90¼	105	90⅜
Mex. Petroleum 6s, Series A, 1921	97	90	123	95½	128	106⅝	111	100	106	105¼	..	..	..	..	108	107	181½	116
Amer Agri Chem. deb. 5s, 1924	...	...	97⅝	92	103⅜	101¾	105	91½	96⅜	90¾	95	93¼	100	93¾	99	96⅞	106	98½
Amer Tel. & Tel. 4½s, 1933	100	94	109¾	96	113⅜	103⅛	107	86	91½	85	84	82	82	82	82½	82½	90	84
Chile Copper 7s, 1923	...	...	141	111	154	120	132	96	107½	102⅜	108¾	105½	106½	104½	105⅞	104½	116	107

tion must be exercised in selection. At present a list of representative convertible bonds shows income returns ranging all the way from less than 5% to as high as 7%, affording an attractive field for choice.

The accompanying table shows a list of 15 typical convertible issues, with approximate market prices, direct income returns, and yields as if held to maturity. These bonds represent rails, industrials, oils, public utilities and copper mining companies. Except in the case of the Atchison 4s, due 1960, there are no very long maturities represented.

A point to be considered in connection with convertible bonds is that the exercise of the conversion privilege, as it becomes of value, enables the issuing company to reduce fixed obligations and to shift the burden to optional disbursements or dividends.

Many copper companies have been extremely partial to the convertible bond, and purchasers of these securities, when the company was more or less in the development stage, have been generously rewarded as the property made good. The Chile Copper Co. is generally conceded to have great possibilities as a copper producer, and its mines are regarded as possessing a supply of ore that will suffice the company for years. Chile Copper has two issues of convertible bonds, the 7s of 1923 and the 6s of 1932. Both of the issues are selling at prices to make the yield worth while, and earnings, which are far from being fully developed, are protecting interest charges adequately.

Conversion rights of the two issues differ. The 7s of 1923 are convertible at any time into common stock, par for par. Par is $25, and the bonds are a lien prior to the 6s of 1932. The latter issue is convertible at the rate of $35 face amount of bonds for each $25 par value of stock, at any time during the life of the bonds. The 6s are only 50% paid. Because of financial conditions arising from the war the company has from time to time extended the date upon which the second 50% of the subscription price must be paid,

and probably will continue to so extend until money conditions become somewhat easier. In the meantime interest at the rate of 6% is paid upon the 50% paid in.

Railroad Convertibles

Southern Pacific convertible issues, on account of the rise in the stock, have come into the limelight among the bonds of that class, but there are other well known rail issues which command attention. Included in the table are the Baltimore & Ohio convertible 4½s of 1933, the Chesapeake & Ohio 4½s of 1930, the Chesapeake & Ohio 5s of 1946, the St. Paul 4½s of 1932, the New York Central 6s of 1935 and the New Haven 6s of 1948. It is true that at present these bonds should be considered more from the standpoint of return as investments rather than from that of their conversion privileges. Nevertheless, in any general move of the railroad stocks, these bonds may naturally be expected to hold a good position, even if the conversion privilege does not immediately become of value.

Baltimore & Ohio 4½s are convertible into common stock of the company at $110 on or before February 28, 1923. The prospects for a realization upon this privilege do not look very inviting at present, but the bond, aside from this, is rated well. Interest is assured, and the yield is comparatively high. C. & O. 4½s are convertible at par prior to February 1, 1920. The stock is around 60 now, or 40 points from the level at which conversion would be profitable. Less than two years remain in which the stock may move to that point. The C. & O. 5s have better conversion privileges. Up until April 1, 1920, they are convertible into stock at 75 a share. It is within the range of possibilities that this conversion may be worth realizing upon. From April 1, 1920, to April 1, 1923, the bonds are convertible at $80 a share; thereafter to April 1, 1926, at $90 a share, and thereafter to April 1, 1936, at $100 a share.

Prior to June 1, 1922, the St. Paul 4½s of 1932 are convertible into common stock at par. The common is now selling at half par, or 50. These bonds have been rated as sound investment securities, and even if the conversion privilege does not appear of great value at the present time, the income return is good, and a long chance of profit is there.

New York Central debenture 6s of 1935 have sold as high as 117⅞. These bonds, which are a direct obligation but not secured by a mortgage, have been very well regarded as a business man's investment, and have commanded a fairly broad market at all times, since their issuance in 1915. At present prices, the bond yields better than 6%. The issue is convertible into common stock of the company at

CONVERTIBLE BONDS

	Approximate Price	Income Return	Yield
Atchison 4s, '60	92	4.34%	4.40%
B. & O. 4½s, '33	83	5.42	6.25
C. & O. 4½s, '30	79½	5.66	7.00
C. & O. 5s, '46	85	5.88	6.12
St. Paul 4½s, '32	80	5.62	6.65
N. Y. Cent. deb. 6s, '35	97¼	6.17	6.25
New Haven deb. 6s, '48	93	6.45	6.55
So. Pac. 4s, '29	82½	4.85	6.30
So. Pac. 5s, '34	101	4.95	4.90
Am. Ag. Chem. deb. 5s, '24	103	4.85	4.40
Am. T. & T. 4½s, '33	89½	5.03	5.50
Am. T. & T. 6s, '25	99¼	6.05	6.12
Chile Copper 7s, '23	111½	6.28	4.40
Chile Copper 6s, '32	86	6.97	7.60
Consol. Gas deb. 6s, '20	103	5.82	4.40

the rate of $100 in stock for $105 bonds up to May 1, 1925. New York Central stock is now selling around 80, but it is a favorite among the rails. New York Central's credit position gives the bonds a good rating, and the conversion privilege may yet be well worth while.

Under Government control, interest on the fixed obligations of the New Haven system is protected. The debenture 6s of 1948, which are convertible into stock at par from January 15, 1923 to January 15, 1946, are selling to net the purchaser over 6%, but the conversion privilege at present does not mean much.

Industrial and Utility Convertibles

A convertible issue which has attracted a favorable following, particularly since peace prospects became something more than vague, is the American Telegraph & Telephone 6% bonds, due 1925. This issue was brought out last summer, under conditions that were not particularly favorable. Since their issue, however, the Government has guaranteed interest and dividends to the big wire companies, and their securities have been looked upon with more favor. The convertible 6s are convertible at any time after August 1, 1920, into common stock of the company at 106. The stock has sold there recently, but the conversion, of course, may not be exercised. This bond of comparatively short maturity may be purchased on about a 6% basis, and is to be recommended. The 4½s of 1933 are convertible into the common stock at $125 a share up to March 1, 1925. The 6% issue of 1925 would seem to have preference over this issue.

American Agricultural Chemical 5s, 1924, are convertible into common stock at par. The stock is paying dividends of 8% and if any holder of these bonds at lower prices has not already converted, it is high time that he did so. This issue has shown a rise of over 14 points this year, and the great part of the gain was predicated by the company's action in placing the stock on an 8% dividend basis.

Consolidated Gas 6s of 1920 have closely followed the stock of the company in its move, which was based upon peace reports. These bonds are convertible into stock par for par up to February 1, 1920. Aside from the conversion features, interest is extremely well protected by earnings, and the price of the bonds is not too high to scare away investors.

Convertible bonds, in the long run, fluctuate more than bonds which are simply mortgage issues, and as a class they have had a substantial rise from the low prices recorded earlier this year. They are, however, by no means at the levels reached in 1916 and 1915.

The table shows the range in prices of ten representative issues for the years 1917, 1916, 1915 and 1914, as well as the monthly highs and lows from the first of January, 1918. The "come-back" in prices will be appreciated when the variations of prices are studied and surrounding conditions remembered.

Attractive to the Specvestor

There are many "specvestors" who fear to commit themselves to the purchase of stocks, believing the risk involved too great; and, at the same time, are not willing to content themselves with the purchase of bonds rated as purely investment issues. To such, the convertible bond makes a direct appeal.

It does not seem that the present prices of convertible bonds, such as the ones included in the table, represent generally inflated valuations and in a general up-swing in prices they will naturally follow the trend to a greater extent than bonds which are governed principally by money conditions.

The bonds shown in the table represent companies whose business should not be hurt by peace and whose stocks are at present regarded more with favor than otherwise. Always, but more particularly when the period of readjustment is almost here, the convertible bond is worth serious attention from the discriminating investor.

How to Invest

Chap. II—Investment Securities and the Corporations Which Issue Them

Public, Quasi-Public and Private Corporations—Class of a Corporation no Index of Value of its Securities

By GEORGE. E. BARRETT

Before discussing the principles underlying the scientific investment of savings, it is necessary to make a brief survey of the investment field and the instruments through which an investment is made.

The Corporation a Modern Development

The economic basis of investments is the legitimate demand for larger sums than can be supplied by one individual. It may be a government, a railroad, or some business enterprise which requires the capital. In these days of large undertakings, calls are continually being made for amounts ranging from a few hundred thousands to billions of dollars.

Obviously it would be impracticable to raise such amounts through borrowing from an individual. Nor would it be wise for an investor to place too large a part of his money in a single enterprise. It, therefore, becomes necessary to appeal to a large number of persons to place a moderate part of their capital in an enterprise, the aggregate of which sums will meet the requirements.

The principal instruments utilized in effecting this operation are bonds and stocks.

To obtain an intelligent understanding of stocks and bonds, we must first examine the nature of a corporation.

Three Classes of Corporations

A corporation is merely a term applied to a creation of the law, through which people can act under certain privileges, restrictions and liabilities imposed by the law. The conception of a corporation is very old, and was clearly recognized in Roman law. It is a legal entity, that is, a legally created body having certain powers of an individual but having an existence separate from its members. One advantage is that although a corporation can sue at law, and perform other acts of an individual, it cannot die but exists until legally dissolved. This is a practical necessity where great operations are carried on through several generations. Corporations are divided into three main classes, namely, public (governments and municipalities), quasi-public (railroads and public utilities), and private (industrials).

Public Corporations

National, state and municipal governments are public corporations, as well as any politically constituted entity through which people act as a body. (In a financial sense, the term corporation usually applies to a business enterprise of some kind and not to governments or municipalities.)

Through public corporations a nation or the inhabitants of a subdivision thereof, act together to carry out the executive, legislative and judicial functions of government.

It is, of course, essential to raise funds to meet the expenditures involved and, therefore, the inhabitants who are members of this public corporation impose taxes upon themselves, acting through their representatives.

As a part of the functions of government, it is necessary to wage war at times. War entails the expenditure of such tremendous sums that to meet these expenditures solely by taxation

during the war would often require more than the income of the people.

Therefore, money is borrowed by selling certificates, called bonds, bearing the promise of the government to repay the amount borrowed at some future date, perhaps ten or twenty-five or fifty years hence. In this manner the government borrows from the people to carry on the war and repays its debts in future years through taxation on the income of posterity.

Similarly a city may wish to build public improvements, such as a waterworks system, which while requiring the expenditure of say $1,000,000,000, will supply water for the coming generations. It is, of course, fair to issue bonds payable through taxation of descendents of the present generations, who will also enjoy the benefits of this expenditure.

In such ways have arisen bond issues of public corporations, such as national bonds, state bonds, municipal bonds, county bonds, township bonds, school district bonds and others. All of these are supported primarily by the taxing power of the public corporation issuing them. The term "municipal bonds" is broadly used to cover all classes of public corporation bonds except those of national governments.

Very often the purposes for which such bonds may be issued will result in the creation of a profitable enterprise which, in itself, will produce a sufficient surplus income to pay the interest on the bonds and gradually retire them. Such is often the case with bond issues for municipal waterworks systems. The water rates charged will often pay all the expenses of operation, the interest on the bonds issued to raise the capital to build the water works and a sum sufficient gradually to retire the bond issue.

Public corporations do not issue what are ordinarily known in this country as "stocks." There are municipal "stocks" outstanding, several New York City issues being so called, but they bear interest, have a maturity date when they are to be paid off, and are the obligation of the city. Thus they are really municipal bonds in everything but name. Our Government also in the early years of its history issued bonds called "stock," such as the 6% stock of 1803 from the proceeds of which the vast Louisiana territory was purchased.

Quasi-Public and Private Corporation

Quasi-public (railroads and public utilities), and private corporations both represent the voluntary aggregation of individuals who have joined together in an undertaking which would require more capital than a single individual could provide. They are both a development of modern times.

In the old days the world depended principally upon agriculture, but the invention of mechanical power revolutionized industry. Up to the time of the invention of the steam engine, practically the only power in the world was derived from the muscles of man or of animals. With the harnessing of steam the development of the present system of land and ocean transportation and manufacturing became possible.

The growth of cities and modern industrial life was coincident with this development. In a single century the world made more material progress than in the two thousand years preceding.

Difference between Quasi-Public and Private Corporations

With the utilization of mechanical power, the quasi-public and private corporations were developed to bring together the capital of many to carry out a single purpose. The difference between the quasi-public (railroad and public utilities) and private corporations is merely in the nature of the business in which the corporation is engaged. It is has been held that private corporations become quasi-public corporations when engaged in furnishing transporation, water, gas or electricity to the public. Thus railroads, steamship lines, pipe lines for the transportation of oil, electric light and power

companies, gas companies and water companies are construed as quasi-public corporations or public utilities. The recent tendency of the court decisions has been to extend the interpretation to cover other corporations from time to time.

The term "quasi-public" (railroads and public utilities) covers corporations engaged in serving the public and enjoying in some extent special privileges such as the use of right of way over the country or through the streets and in return are subjected to regulation.

Private corporations may be engaged in almost any kind of undertaking, including agriculture, mining, manufacturing, trading, commerce, banking, professions, education, charity. They constitute the entire balance of corporations.

Conclusions for the Investor

From an investor's standpoint, it is important to know that the class to which a corporation belongs does not determine the value of its securities for investment. There is a general notion prevailing in the minds of many investors that for investment purposes the securities of corporations rank in the following order: Public—quasi-public (railroads and public utilities), private — (industrial corporations). Going into more detail, the classification many have in mind is about as follows: National governments, municipals, railroads, electric utilities, street railways, manufacturing corporations, mining corporations.

It would be impossible to make up any statement of facts that would prove that there is any relative order of rank for corporations which would be of value to the investor. The fact is that it would be possible to prepare arguments supported by data which would make a plausible case for or against the relative value of any class of corporations as investments.

Thus for the purposes of the investor, it is absolutely necessary to consider individual cases. There are securties of industrial and mining corporations which rank much higher than the bonds of many national governments. The particular features of the various classes of corporations which are important for the investor to consider are referred to under the chapter "Judging Investments."

(To be continued)

FROM A SOUTHERN SUBSCRIBER

Baltimore, Md., Oct. 5, 1918.

My dear Mr. Wyckoff:

Your communication with enclosure just to hand, and I wish to acknowledge the same, with many thanks. Let me also say how much I have enjoyed your articles on Liberty Loans, etc., and your "Intimate Talks to Investors." They have seemed almost like personal advice—and whenever I could—I have in a small way, followed your advice. I look forward to each issue of The Magazine of Wall Street with great interest and always find something new to think about and something to help me. If it is not imposing upon your time, I would like to tell you a little circumstance which occurred while I was at "Galen Hall," Wernersville, recently. A very fine old New England gentleman and his wife were sitting in the Exchange of the hotel and I was reading my magazine, which I had just received. The old gentleman stepped up in front of me and in his quiet, slow New England voice said —"Lady, excuse me, but do you take that magazine?" I replied that I did. He then said "Would you mind letting me see it after you have finished reading? I have been taking it all the time, almost since it first began, and couldn't do without it. I have made money every time that I have followed the advice of this magazine. Mine for this month will be at home when I go back, but I *would* like to look at yours!" Of course I handed it to him; and he sat near by, reading it carefully to his wife.

Thought this might interest you, as it did me.

Very sincerely,

A. R. G.

Bonds of Penn., B. & O. and C. & O. Compared

An Illuminating Analysis of the Position of the Three Roads—Radical Differences in Their Policies and Progress—What Changes the Investor May Well Make in His Holdings

Bond Study No. 8

By G. C. SELDEN

[In view of the very low prices for railroad bonds which have prevailed, we have presented in recent issues a number of "Bond Studies" of different roads, including Southern Pacific, N. Y. Central, Union Pacific, Atlantic Coast, Louisville & Nashville, Northern Pacific, Southern Railway, Missouri, Kansas & Texas, and two articles on the bonds of recently reorganized roads. While railroad bonds have risen somewhat in price, they are still very low—considerably below the lowest point touched in the panic of 1907, for example. Therefore the present article, in continuation of the series, is still timely.—Editor.]

IN territory covered and in character of traffic, Pennsylvania R. R. and B. & O. are more alike than any other two of the great Eastern railroad systems. Both roads are heavy coal carriers. In 1917 57% of Penn.'s traffic consisted of "Products of Mines"—a classification principally composed of coal—against 60.7% of B. & O.'s. At the same time both roads carry a large volume of merchandise and miscellaneous traffic, which bears a much higher rate than coal.

C. & O. lies in similar territory, but farther south, where manufacturing has not yet developed to the same extent as north of the Potomac and Ohio rivers. Over 74% of its traffic consisted of products of mines last year, so it is predominatingly a "coaler." Yet it penetrates the Central States by its lines to Chicago and Toledo, and crosses Kentucky to Louisville.

There have been remarkable differences in the development of these three similar roads during the last five years, which are not fully understood by investors in general.

Margin for Interest Charges

In examining the principal bonds of the three systems, the natural point of departure is the number of times each road is accustomed to earn its total interest charges. This is shown by Graph No. 1 herewith.

Penn is far in the lead as regards the margin above interest. In the worst year of the last seven, total charges were earned more than four times over. Such a big margin of surplus makes all of the company's bonds high grade—since it is hardly conceivable that the company's earnings could fall so much as to prevent payment of interest on any of its bond issues, even regardless of the fact that earnings are now guaranteed by the Government until 21 months after the end of the war. So the study of Penn.'s bonds is reduced to a comparison of yields. The investor can hardly get safer bonds but he may perhaps get a higher return on his money with equal safety.

On the other hand, it is noticeable that Penn. has shown during this period no signs of any increase in the margin above its charges. It has held its own at a high level, except for some decline in the year 1917, when all railroad conditions were abnormal.

In the meantime B. & O.'s earnings have been steadily on the down grade compared with interest requirements, while C. & O.'s have been rising, especially since the war began. In 1917 B. & O.'s position really began to look doubtful, with charges earned less than

1½ times and the apparent trend downward. The Government guaranty rescued it—yet the bond investor prefers to buy into a road which can stand on its own feet.

C. & O.'s 1917 record was exceedingly satisfactory. Comparing with 1915, we see that in 1917 Penn.'s surplus over charges fell nearly 14%, B. & O.'s fell 46%, but C. & O.'s rose almost 150%. While that method of figuring tends to exaggerate C. & O.'s advantage, it brings out very clearly the radical difference in trend.

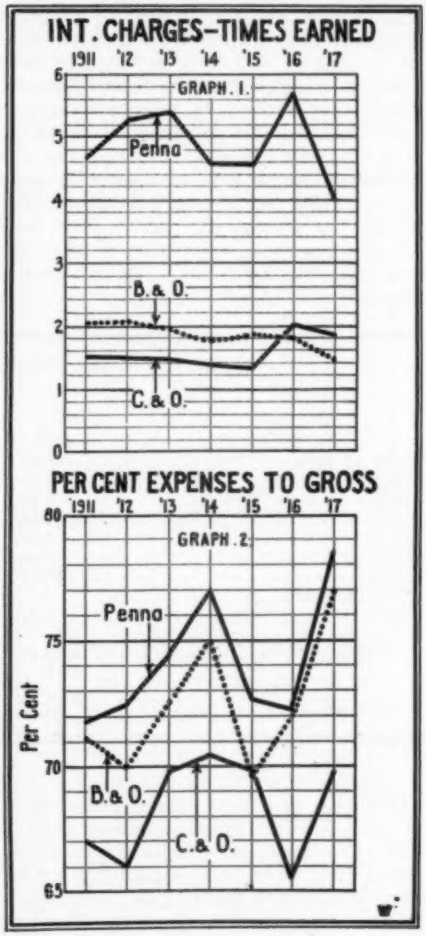
What was the cause of this great difference in the tendencies of roads running almost side by side? Was it due to accidental and abnormal conditions, or was it the necessary outcome of differing policies?

To answer this question, we construct Graph No. 2, showing the railroad key figure, per cent of expenses to gross earnings, from 1911 to date. The fact that this figure is lowest for C. & O. throughout the period has no particular significance for our purpose. Each road has its own natural relation of expenses to earnings, depending upon its individual peculiarities. The significance lies in the rise or fall of the figure from year to year, which shows whether that part of its earnings which a road is able to carry forward for the benefit of its securities is increasing or decreasing.

In this respect we see that Penn. and B. & O. have suffered much more severely from rising costs in proportion to earnings than has C. & O. Comparing with 1913, the year before the war, Penn.'s ratio in 1917 is 4.2 higher, B. & O.'s is 4.5 higher, but C. & O.'s is the same.

For some reason, then, C. & O. has been able to haul its traffic relatively cheaper. What is the reason?

There are two ways in which a road may reduce expenses—by neglecting maintenance and letting its property run down, or by increasing its operating efficiency. It is very important to know which way has been chosen, for the first leads a railroad speedily into trouble while the second builds it up into a better property.



Operating Efficiency Shown by Train Loads

For years about the only way the roads have had to increase their operating efficiency and thus to counterbalance rising wages, rising taxes, rising cost

of materials and the rising expense of a thousand and one State and Government regulations, has been to haul more tons of freight in one train. This has been accomplished by better and heavier equipment, reduction of grades, improvement of roadway, and so on, all of which of course tend toward the permanent upbuilding of the property.

We therefore turn to the average train loads hauled on these three roads year by year, shown in Graph No. 3. All have increased, as was to be expected. The important point is to note which has gained the most. And we see at once that this is one reason, at any rate, why C. & O. has been able to keep down expenses.

The fact that C. & O.'s load is the heaviest is due to the large proportion of coal in its traffic, as noted above. The other two roads could not possibly equal C. & O. in this respect, owing to the character of their traffic. The important point is the tremendous growth of C. & O.'s load. Starting practically even with Penn. in 1911, it now hauls 171 tons more per train. Since 1913 Penn.'s load has increased 153 tons, B. & O.'s 157 tons, and C. & O.'s 200 tons.

This is highly favorable to C. & O. But how has it been accomplished? By improving the road and its equipment—but where was the money obtained to make the necessary improvements? Was it borrowed, thus creating a permanent interest charge against the road's earnings, or was it taken out of annual earnings—saved, as we would say of a person?

The natural condition of almost all American railroads is one of growth, to accommodate the wants of increasing population and business. Therefore a railroad's "invested capital" must normally increase and this increase is usually accompanied by some rise in fixed charges—the principal item in fixed charges being interest on the bonds issued to obtain capital.

Changes in Fixed Charges

Graph 4 shows this rise in fixed charges for the three roads under consideration. The actual rise has been the greatest for Penn., the proportional rise the greatest for B. & O., while the increase for C. & O. has been noticeably small.

So it is seen that C. & O. has not only exceeded the other two roads in the increase in efficiency of operation, but it has accomplished this with a smaller amount of borrowing, both in actual figures and in proportion to its fixed charges per mile at the beginning of the period.

Where did C. & O. get the money to bring about this increase of operating efficiency, if not by borrowing? That question is answered very plainly by Table I, which shows earnings and dividends for each road from June 30,

TABLE I—EARNINGS AND DIVIDENDS

	Penn.		B. & O.		C. & O	
	% Earned	% Paid	% Earned	% Paid	% Earned	% Paid
1910 (6 mos.)	4.60	3	...	..	...	..
1911	8.64	6	6.89	6	5.14	5
1912	9.36	6	7.58	6	6.81	5
1913	8.86	6	7.22	6	5.25	5
1914	6.82	6	4.50	6	4.73	4
1915	8.49	6	5.49	5	4.25	1
1916	10.47	6	7.41	5	10.96	0
1916 (6 mos.)	...	..	4.64	2½	7.20	2
1917	7.87	6	3.73	5	11.25	4
Totals	65.11	45	47.46	41½	55.59	21
	45.		41.50		21.	
Balance in % on stock	20.11		5.96		34.59	

1910, to December 31, 1917. (It will be remembered that both B. & O. and C. & O. changed their fiscal periods in 1916 to end December 31 instead of June 30. Hence it is necessary to include the intervening 6 months, also the last 6 months of 1910 for Penn.)

During this period Penn. earned 65.11% for its stock and paid out 45%, leaving 20.11% to be carried to surplus and thus reinvested in the property. B. & O. paid out in dividends almost all of its earnings, only 5.96% on the stock having been carried to surplus to aid in improving the property. But C. & O. reinvested in its property 34.59% on its stock against dividends paid of only 21%.

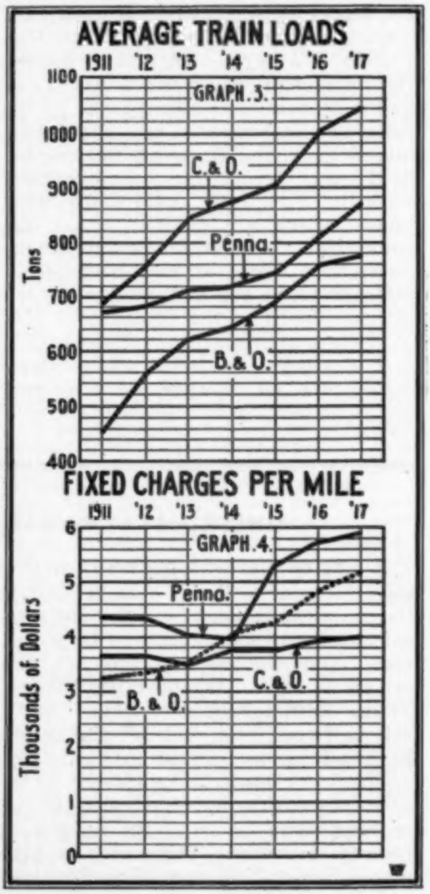
We now have the whole story. Penn.'s surplus of earnings above interest charges (Graph 1) has been held about steady because nearly one-third of the earnings for its stock have been reinvested in the property, although at the same time a great deal of money has been borrowed. B. & O.'s surplus earnings have drifted steadily downward because it has paid out in dividends almost the full earnings on its stock and has improved its property only by a heavy increase in its bonded indebtedness. While C. & O.'s margin of earnings above interest charges has risen because it has improved its property to an even greater proportional degree than the other two roads, and has done this mostly out of its earnings, with only a small increase in bonded indebtedness.

The great change, as will be seen from Table I, has come since 1915. In 3½ years C. & O. has earned 33.66% on its stock and has paid a total of only 7% in dividends. This is a record of upbuilding which few if any other roads can equal.

Standing of the Bonds

Penn.'s underlying bonds, of which there are many issues, are inactive, having long since passed into the hands of investors who think too much of them to let them come on the market. Three issues, shown in Table II, are fairly active, yielding now from 4.8% to 5.1%. All three are of course entitled to a high investment rating.

It will be seen that B. & O. prior lien 3½s and gold 4s yield only a shade higher than the C. & O. consolidated 5s; B. & O. refunding 5s only a trifle more than C. & O. general 4½s; and the P. L. E. & W. 4s, B. & O. S. W. 3½s, and B. & O. convertible 4½s yield the same or a little less than C. & O. convertible 5s. In each of these three classes it seems to me, in view of the general position of the two roads as



previously outlined, that the C. & O. bond is decidedly to be preferred.

This is especially true of the two convertible issues. The B. & O. 4½s are convertible into common stock at

110 until Feb. 28, 1923; while the C. & O. 5s are convertible into the stock at 75 until April 1, 1920; at 80 until 1923; at 90 until 1926; and at 100 until 1936. The probability that C. & O. stock will reach 80 by 1923 is decidedly greater than the chance that B. & O. may reach 110—and if so the price of the bond would of course follow the stock above 80.

The C. & O. convertible 4½s remain to be considered, having a yield nearly 1% higher than any other bond shown. They are convertible at par until Feb. 1, 1920. It does not look now as though that privilege would have any value and it probably has no influence on the price of the bonds. They have some mixed third, fourth and fifth liens behind them (which they share equally with the First Lien and Improvement bonds which are pledged under the convertible 5s), but for practical purposes they might as well be rated as debentures, or bonds dependent on the general credit of the company.

In view of the extent to which C. & O.'s position has been strengthened during the last four years and its general tendency toward growth and betterment, I believe these bonds are exceptionally attractive for their yield. Almost any investor, I should say, might well put a part of his funds into C. & O. convertible 5s and 4½s; but I see nothing attractive about the B. & O. bonds as compared with many others and the Penn. issues are adapted only to the investor who desires exceptionally high safety regardless of yield.

TABLE II—YIELDS OF ACTIVE BONDS

	Recent Price	Yield %
Penn. R. R.		
Gold 4s, 1948	86	4.9
Cons. 4½s, 1960	95	4.8
Gen. 4½s, 1965	89	5.1
B. & O. R. R.		
Pr. lien 3½s, 1925	88	5.6
Gold 4s, 1948	78	5.5
Ref. 5s, 1995	85	5.9
P. L. E. & W. 4s, 1941	75	6.0
B. & O. S. W. 3½s, 1925	86	6.0
Conv. 4½s, 1933	84	6.2
C. & O. Ry.		
Cons. 5s, 1939	96	5.3
Gen. 4½s, 1992	79	5.7
Conv. 5s, 1946	85	6.2
Conv. 4½s, 1930	79	7.1

UNITED STATES RAILWAYS, CONSOLIDATED

It may be said with perfect truth that the new order of things is as yet only in the experimental stage, and that any present estimate of its effects must be premature. None the less, a preliminary view can do no harm. We have had "United States Railways, Consolidated," for a full half-year, and some of the results have had time to demonstrate themselves.

The first class to be considered, in the order of priority, though not at all in that of importance, includes the holders of railway securities. There need be little dissatisfaction here, and apparently there is none.

Some few general principles we may lay down with the new situation still in its experimental stage. One of them is that even a *quasi-public* industry may not be strictly limited by law on the side of its possible earnings while its expense account is left open to attack from every quarter. I venture to suggest that under such conditions no other industry in the land would have been able to hold out on a going basis for so long a period as the railways did. That the law was demanding the impossible is naively proved by the recent wholesale advances in passenger fares and freight tariffs. Some of us may still remember that the railways prayed long and earnestly for a small fraction of this relief in the pre-war period — and waited many anxious months before they were told they couldn't have it. — Francis Lynde, in *Scribner's*.

Investment Inquiries

WRIGHT-MARTIN

In the Peace-War Group—Its Perplexing Market Status.

Wright-Martin still appears to have good possibilities around current levels. This was fully discussed in the May 25th issue of the Magazine of Wall Street, and we suggest that you study the article.

The company has a large earning power, is working to capacity on Government orders and the future prospects are promising. The stock is of course speculative while its preferred is regarded as a semi-speculative investment of a more conservative type. The stock has intrinsic value and we believe it will be better to average around these prices than to sell. The stock should come back and show a substantial profit. We believe that Wright-Martin has good peace possibilities as the Aeroplane Industry is not entirely dedicated to war purposes. It is in the pioneer stage and no one can tell the extent of ultimate development of it. The Wright-Martin Co. is also well equipped to turn out motor engines for automobiles, and is therefore well provided for business of a more normal kind during peace times. As an auto-motor, the company, like Willys-Overland, Curtiss, etc., has "two strings to its bow."

COMMONWEALTH RY. P. & L.

Compared with Maxwell 1st Pfd.—Switch Appears Desirable.

Commonwealth Railway Power & Light pfd. stock is very inactive, it is not listed on any exchange and all sales are made privately. It enjoys a fair market over the counter. The last price was 50. Compared with its 6% dividend, which it has paid continuously since 1911, the company earned between 1911 and 1917 about 14.60% available for this issue, which is a fair margin. However, the company got into difficulties through its 5-year convertible 6% bonds, due May, 1918, and it had to apply for assistance to the Government to pay this issue. Various plans have been proposed and the matter is not yet settled. It is proposed to issue new bonds in place of the old, new issue to net the holder about 7½%. This is not a very bullish argument for the company's stocks.

So far as the common stock is concerned, the dividend was passed in February, 1918, and in July, 1918, dividend of 6% on the pfd. stock was changed into a scrip dividend. This company has had its troubles in common with the majority of the utility companies of the same type, and peace appears to be the solution of these. We believe that the shares will eventually sell higher, but we prefer a stock like Maxwell 1st pfd., also paying a dividend of 7% and selling around 62. We believe that the difference of 10 points is in favor of Maxwell 1st pfd., which is a cumulative issue. Maxwell has no funded indebtedness.

If you actually hold Commonwealth pfd. we believe that you will be able to liquidate to better advantage later. Would not, however, suggest a purchase.

ONTARIO—DENBIGH SILVERS

The Silver Twins Again—Reformation of Constant Reader.

We are very glad, Constant Reader, that your former bellicose attitude finds some modification through our being right. We suggested a sale of Ontario around 11 and Denbigh around 3, giving analytical-"searchlight" reasons therefor. Recent quotations around 7 and 50 cents respectively do not prove that we were right so much as the principle that nothing but investment worth counts, and that every investment must find its true level at last.

We still believe that the "silver twins" are too high by comparison with other meritorious gold and silver stocks like Howe Sound (copper-silver), Anaconda (copper-silver-manganese), United Eastern (gold), Cresson (gold), or even a real "penny" stock like Mines of America (silver). The latter is a despised low-priced issue, but it has better silver mines in Mexico than those belonging to the above duo, and we would sooner hold Mines of America "for keeps" than either Ontario or Denbigh. "The Searchlight" has made no secret of the chances a holder of cheap mining stocks takes, but since it is human to take chances, it is better to link oneself to a coming property rather than a "has-been" with microscopic possibilities of "coming back" or graduating higher up.

KENNECOTT—MOTHER LODE

An Interesting Affiliation—Mother Lode Another Braden?

We advise the exchange from Mother Lode old into Mother Lode Coalition Mines. We believe that the new management will make a real mine out of Mother Lode, and although the exchange does not appear to be so very generous at this time, this is offset by the certainty of the company being financed and the mine being supplied with all the equipment, transportation, etc., that it requires. The new management is identified with Kennecott affiliations through Mr. Stephen Birch's interest in the new concern and we believe stockholders can make no mistake to make the exchange.

As you know. Kennecott is making a great success out its Braden property, while Calumet & Arizona did a similar thing with New Cornelia. The latter was purchased by one of our subscribers at 2 a share, and has recently been advised by us to hold for around 30. It is about 18-20 at this writing. This shows the value of patience in the stock market, particularly with mining properties, which often take many years to develop.

We do not represent that Kennecott has any direct connection with Mother Lode. Their properties merely adjoin and an official of the famous larger company is "interested." That is all there is to the connection. Holders should regard Mother Lode Coalition as a long-pull mining speculation, which is legitimate and promising. Temporary fluctuations will get you nowhere in this issue. Patience and indifference to the market should bring its own reward.

LEHIGH VALLEY

Distinctly an Investment — Comparison with C. & O.

Lehigh Valley R. R. has a guarantee of about 5.6% under the plan, which is before taxes.

It is true that after taxes are paid there will be a very slender margin over and above the 5% dividend. But this company has never earned its dividend by a very wide margin and has very large equities behind the common stock. We do not believe that the outlook is unfavorable, but at the same time we believe that if the stock should rally to around 63 or 65 it would not be a bad idea to switch at least a part of your holdings into Chesapeake & Ohio, now selling around 60. This road has a guarantee of about 9% compared with its dividend of 4%, and even without Government support it would be able to earn its dividend by a very wide margin. We believe the long-range prospects of Chesapeake to be better than those of Lehigh Valley although the latter has potentialities in its coal holdings. For the long pull we believe that Chesapeake & Ohio will give a better account of itself during the next year or two.

HIGH YIELD BONDS OF MERIT

Selection of Bonds Suggested for Market Appreciation.

Inter. Met. 4½s is a good speculative high-yield bond, and we can also recommend Hudson & Man. 1st 5s, Frisco Adj. 6s, Erie Con. "D" 4s, Seaboard Air Line 1st 6s, Col. & South. 4½s, Int. Ag. 5s, South. Pac.-Frisco Terminal 4s and Japanese 4½s, to make up a diversified list suitable for an investor of your means and position.

CITIES SERVICE PREFERRED

An Attractive Investment—Stock Has a Consistent Earnings Record—Dividend Apparently Safe.

Cities Service Pfd. is a good speculative investment to be purchased around 75. The earnings are holding up well and the company shows a large earning power out of its oil operations. It is our belief that the preferred dividend can be maintained through bad times in view of the large surplus which the company is accumulating and the fact that the oil industry is likely to remain prosperous during the war and for some time afterwards. The preferred dividend is being earned about five times at present, and even in 1911, 1912 and 1913, this dividend was earned by a very satisfactory margin. The stock enjoys a fairly good market. It is not listed on the New York Stock Exchange. In its class it is fairly attractive. In our opinion, we believe that Cities Service is an excellent speculation and should be purchased.

INDIVIDUAL REQUIREMENTS

Investors Should State Their Position—Cannot Advise on a "Free-Lance" Plan.

With regard to your proposed investment: We find it difficult to prescribe without knowing the precise requirements of the individual. So many factors enter in each investor's case that it requires a special study of the individual position to do an inquiry of this character the justice it deserves. However, we enclose a sample of our Investment Letter containing references to approved securities, and the classifications of each. You will undoubtedly find something in it to suit you. Subscribers to this service are expected to keep in touch with the Investment Letter Department in order to make the best use of the Service.

A GOOD INVESTMENT LIST

Bethlehem Steel Notes—Convertible Railroad Bonds and Others Suggested.

We take pleasure in reporting that all your stocks and bonds are conservative investments for the funds of a business man, and we have no comment to make on them.

We see no reason to suggest a sale, although it might be well to switch one B. & O. 4½ into one C. & O. Conv. 4½ and one K. S. U. 5 into one South Pac. Conv. 5. The Bethlehem Steel notes are well secured, and there is no occasion to sell.

In this connection, we enclose a sample of our Investment Letter which will give you other recommendations which you might consider.

SOUTHERN PACIFIC CONV. 5s

Bonds Analyzed for Institutions, Insurance Companies, Banks, Etc.

In response to your request for a brief analysis and opinion on Southern Pacific conv. 5s, we give you the following particulars:

These bonds, while not a mortgage, are a direct obligation of the Southern Pacific Company, which is not only one of the leading railroads of this country, controlling nearly 11,000 miles of first-main track, but also is a holding corporation of the stocks, bonds, etc., of about 125 companies and their affiliations. These companies represent oil, sugar, shipping, lumber, land, development, utility and other enterprises which, as an auctioneer would say: "are too numerous to mention."

Southern Pacific is a $272,823,406 enterprise, and at that is liberally under capitalized. Its direct obligation is, in our judgment, as good as any mortgage.

These bonds are all given an A rating upon an investment basis, are legal for savings banks in Cal. and N. H., authorized to the extent of $55,000,000 and outstanding $54,345,000. So far as we know less than $200,000 have been converted into stock at this time, but there is little doubt that the conversion privilege will be used by holders before the option to convert expires. This convertible privilege is the right to exchange the bonds into common stock upon a basis of parity before June 1, 1924.

They are redeemable, *as a whole only*, on June 1, 1919, or thereafter at 105 on 90 days' notice. If called for payment, however, the bonds may be converted up to 30 days prior to the redemption date named. The bonds were originally offered in 1914 to stockholders, who were entitled to subscribe for them at par, to the extent of 20% of their holdings. They were underwritten by a syndicate headed by Kuhn, Loeb & Company and were over-subscribed. They are, of course, listed on the N. Y. Stock Exchange, San Francisco Stock and Bond Exchange, and are traded in on all the leading exchanges such as London, Paris, Amsterdam, etc. Their price range has been about as follows:

	High	Low
1914	103⅝	94⅞
1915	108	95¼
1916	107⅞	102½
1917	104½	85
1918	106	86⅛

The 1917 and 1918 "lows" should be ignored as there was an abnormal bear market for railroad stocks and bonds and prices of that period are misleading to the average investor. Such "lows" should not be seen again in a decade.

For a period of 10 years to December 31, 1917, the Southern Pacific Co. earned the interest on these bonds by a liberal margin, namely 82%, or more than 1¾ times the interest requirements. The company has shown a steadily expanding earning power for its common stock as follows:

1915	7.2%
1916	13.
1917	17.7

The per cent of expenses (before taxes), to gross earnings has declined from 67.6% in 1914 to 61.8% in 1917, which shows very efficient management; and the same is shown by the average freight train load which rose from 403 in 1915 to 547 in 1917.

These bonds, in their fluctuations, follow the stock within a point or two and the cautious investor as well as institutions, trustees, trust companies, savings banks, etc., might well consider their strength *for pure investment, while at the same time holding a valuable convertible privilege* (a call upon the stock) *for 5½ years without extra cost.* The stock has already sold up to 110 in 1913, 139 between 1909-1912 and 122 in 1908. The stock should sell at these figures or higher by the time peace is a fact and holders of these bonds should naturally benefit through the convertible privilege. Meantime, the interest yield or around 5% is generous under the conditions and taking into consideration the profit-making possibilities of this well secured bond.

The company is a holder of some of the most valuable oil lands held by any corporation, these being worth from $500,000,000 to $1,000,000,000 in the opinion of competent experts. The Government is disputing Southern Pacific's ownership but eminent counsel and judges believe that the Government will lose its case eventually. This adds a very important and attractive speculative flavor to the profit-making possibilities of the bonds. Southern Pacific Company has a chance to become as powerful as some of the leading production units of the Standard Oil group.

The company is discussed in the October 26th as well as this issue, and the writer believes that this is one of the best bonds in the list for all classes of investors and institutions, insurance companies, trust companies, banks and similar depositories of public funds.

RAILROADS AND INDUSTRIALS

Southern Pacific's Oil Properties in Mexico

Rank Third in Potential Production—Oil Lands Close to Other Big Gushers

By RICHARD D. WYCKOFF

TAKE a trip with me over the Southern Pacific Company's Mexican lines and let's see what we can discover. Forget, for the time being, all about the railroads, the trolley lines, and the coal, lumber and land companies which the Southern Pacific Company owns.

We will board a Southern Pacific train at the Mexican border, travel south, though Sonora and along the coast of the Gulf of California for about 800 miles. This railroad, by the way, is another monument to the far-sightedness of Edward H. Harriman, who believed that some day Mexico would be blest with the kind of government which would permit American capital properly to develop that country, often referred to as the treasure house of the world. It was Harriman who foresaw that although revolutions might destroy parts of the property and interrupt traffic, the possession of such a line would eventually become of tremendous strategic advantage.

The Southern Pacific Company owns the entire capital stock of the Southern Pacific Railroad Co. of Mexico, amounting to $75,000,000. On page 83 of the Southern Pacific Company's annual report we find that the Mexican company has total investments of $125,798,467.28 and total assets of $134,398,578.90. It evidently owes the parent company what is itemized as a "long term non-negotiable debt, $70,206,830.14." The parent company is, therefore, not only owner of all the capital stock, but it is the principal creditor. Earning power and equities in this property are matters which must be determined after the Mexican situation is straightened out and the extension to Mexico City is completed.

We leave the Southern Pacific at Tequila, travel on past the City of Mexico, and three hundred miles easterly of the point where the Southern Pacific ends. Here lie Tampico and Tuxpam with their wealth of oil deposits which some people believe were the real cause of the successive Mexican revolutions.

Here we look around to see who owns all these oil lands, these prodigious gushers, these pipe lines and steamships which have been such an important factor in the world war. We find that there has been a considerable scramble for oil lands, the territory being all cut up into large and small sections representing the claims of various interests. We learn that the Mexican Petroleum Co. had a very early start, and has secured some of the best oil lands in the country; that the Texas Co. and the Pierce Oil Co. have not been asleep, nor have the Pearson-Cowdray or Royal Dutch interests.

Frequently in our travels about the Panuco and the Topila districts, where the oil lands and the gushers are the thickest, we find the name of East Coast Oil Company, apparently not a very active producer, but one which has evidently had a well-directed eye toward the productiveness of the district, and the advantage of being on the ground early.

Perhaps the Southern Pacific Company's annual report will give us a little information about this East Coast

Oil Company. Ah! yes, here it is on page 80—a small affair—surely that cannot amount to anything! But bring it over here into the light and let's see what we can discover.

Although capitalized at only $50,000, it has a property investment of $1,796,306.52, and total assets of $2,498,833.04, including $134,065.90 in cash, and a few hundred thousand in accounts receivable, merchandise, materials, etc. From the other side of the balance sheet we learn that it owes affiliated companies $1,478,641.92. On page 28 of the Southern Pacific report we find that this apparently small and obscure subsidiary has annual gross earnings of $1,300,000, and an annual production of 3,150,000 barrels of oil —quite an output for a $50,000 company! This production, however, is drawn from leased lands only.

Let us go a little farther and investigate the potential production of this harmless young subsidiary, for as the map shows, it either owns or leases some 20,600 acres in various sized parcels. Of these we can count perhaps a dozen, some of them snuggled up close to other properties which contain gushers running from 10,000 to 30,000 barrels a day. One of them is only a mile or two from the great 100,000-barrel-a-day gusher of the Corona Oil Co. (Royal Dutch), and another within a mile of the 30,000-barrel gusher brought in less than 60 days ago by the Pierce Oil Co.

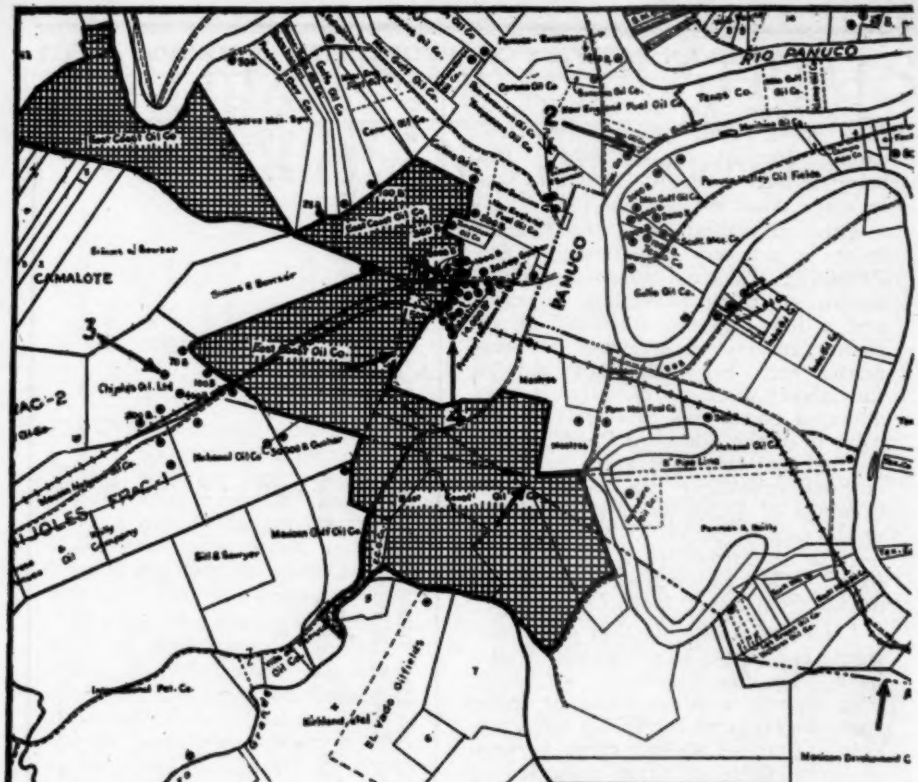
With its 20,600 acres in this world famous oil district, the East Coast Oil Co. ranks high among the great oil companies operating in this territory, and from the standpoint of potential production, according to the "Mexican Review," it stands third. Bear in mind, however, that only 22 wells have been drilled up to date of the latest available report. Of these 16 were productive, 5 unproductive, and one is in process of drilling. In other words, this territory has scarcely been scratched.

Compare it with the El Aguila, (Pearson-Cowdray holdings) with a total of 355 wells drilled, 213 of which were unproductive, 120 productive, and

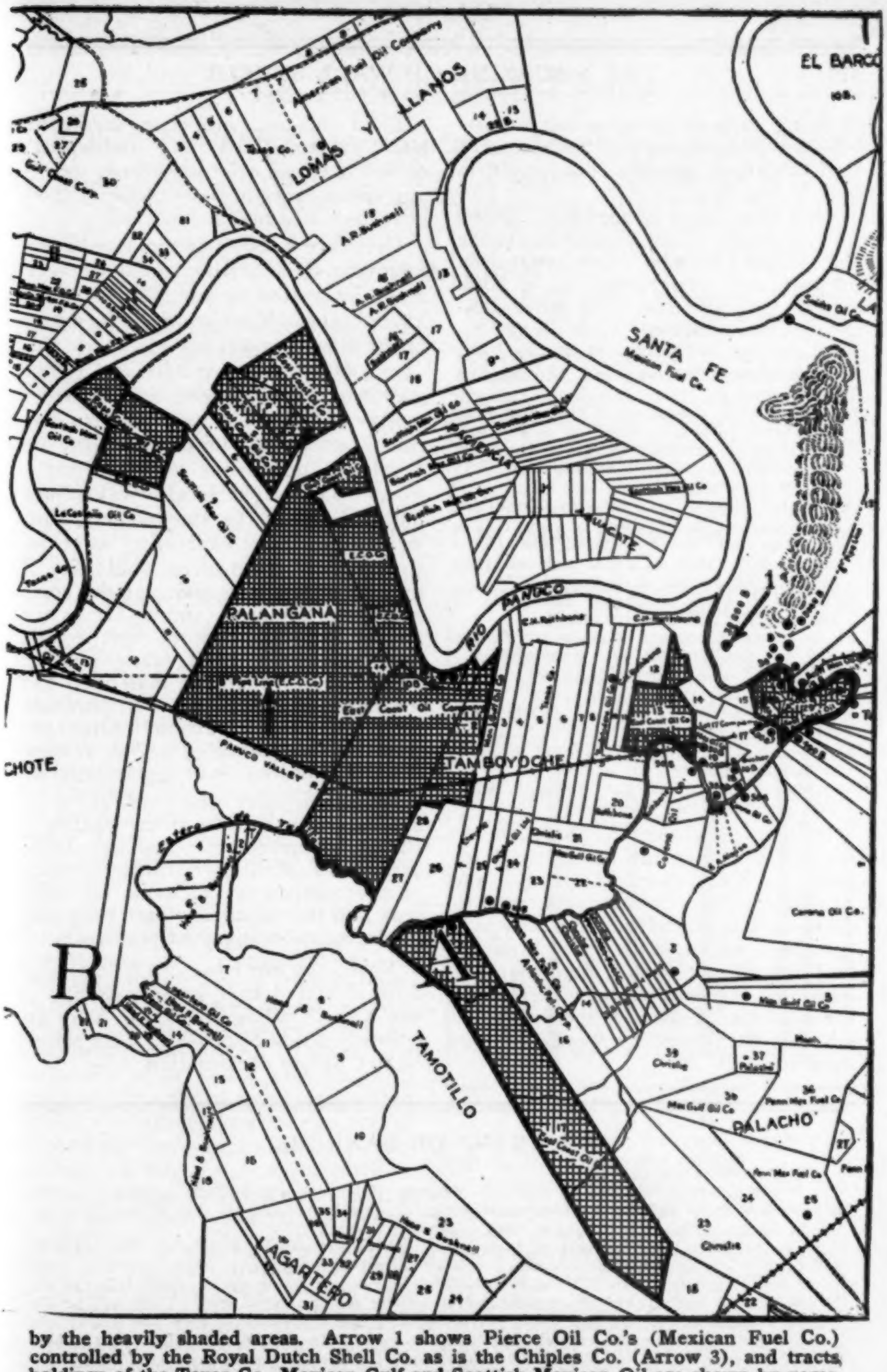
OFFICIAL STATISTICS GIVEN OUT BY THE SECRETARY OF THE DEPARTMENT OF INDUSTRY, COMMERCE AND LABOR, MEXICO, EARLY IN 1918

Name of Co.	Controlled by	Productive Wells	Unproductive Wells	Now Sinking	Total	Potential Daily Production Bbls. 42 Gals.	Production 1917
Huashea Pet. Co.	Mexican Petroleum	7	14	5	26	305,000	17,325,171
El Aguila	Pearson-Cowdrey	120	213	22	355	133,000	16,992,322
East Coast Oil Co.	Southern Pac. Co.	16	5	1	22	128,000	*3,125,000
La Corona	Royal Dutch Shell	13	8	5	26	106,000	719,828
Mexican Gulf Oil Co.	Gulf Oil Corp.	7	6	3	16	95,000	1,125,702
Penn-Mex Fuel Co.	Standard Oil	5	10	4	19	70,000	4,076,982
Tal Vez	Scottish Mexican Oil Co. and Southern Oil & T.	2	...	...	2	63,000	828,067
Texas Co. of Mexico	Texas Co.	8	1	2	11	25,000	1,160,794
Freeport & Mex. Fuel Oil Corp.	Sinclair Gulf	7	2	4	13	16,000	3,143,220

*As will be noted, actual production was restricted to 3,125,000 bbls. against 17,325,171 for Mexican Petroleum; 16,992,322 for the Pearson-Cowdray interests and 4,076,982 for Standard Oil. Royal Dutch Schell production was exceptionally low on account of war conditions.
*Company's figures.



The holdings of East Coast Oil Co., owned by Southern Pacific, are indicated
30,000 bbl. gusher. Arrow 2, Corona Oil Co.'s 100,000 bbl. gusher. This company is
marked "A." Arrow 4, Freeport & Mexican Fuel Co. (Sinclair Gulf) Important
It will be noted that the East Coast Oil Co. properties are in the immediate vicinity



by the heavily shaded areas. Arrow 1 shows Pierce Oil Co.'s (Mexican Fuel Co.) controlled by the Royal Dutch Shell Co. as is the Chiples Co. (Arrow 3), and tracts holdings of the Texas Co., Mexican Gulf and Scottish Mexican Oil are shown by name. of the heaviest production.

22 being sunk at the time last reported,—yet that company only has a slightly larger potential production in barrels per day.

This East Coast property is carried on the books of the Southern Pacific Co., jumbled in with other apparently insignificant subsidiaries, at a total sum of $24,730,955.60. The other companies are as follows:

Albion Lumber Company; 23,019 acres redwood timber, with saw mill and logging roads.

Associated Oil Company; (50.48 per cent of authorized stock owned by S. P. Co.); annual gross earnings, $28,000,000; annual production, including subsidiaries, 10,000,000 barrels of oil.

Associated Pipe Line Company; (one-half of authorized stock owned by S. P. Co. and one-half by Associated Oil Company); 561 miles of eight-inch oil pipe lines, 50,000 barrels daily capacity.

Beaver Hill Coal Company; 924 acres of coal lands, Coos County, Oregon.

Pacific Fruit Express Company; owned half by Southern Pacific Company and half by Union Pacific Railroad; 14,233 ventilated refrigerator cars.

Rockaway Pacific Corporation; 563.95 acres on Jamaica Bay, near Brooklyn, N. Y.

Rio Bravo Oil Company; annual production, 320,000 barrels of oil.

Southern Pacific Building Company; office building, Houston, Texas.

If, from this item of $24,730,955.60 we deduct the value of the half interest in the Associated Oil Co., the Albion Lumber Co., and the various other coal, land and oil companies, etc. (provided we could ascertain their actual value), we would find that the East Coast properties are carried on the books at a merely nominal value whereas they must be worth millions upon millions.

The Company's properties are in the heart of gusher territory and apparently they need only systematic development to bring in wells rivalling their next door neighbors'.

There are 37,000 stockholders of the Southern Pacific who would be very much interested in knowing not only what these lands are worth in the minds of the management, but what they will earn and how soon. It is not within our province to suggest to the directors how and when the Southern Pacific Mexican oil properties shall be developed, nor do we wish to print a word which might in any way injure the interests of the stockholders. But we believe we are expressing what the stockholders themselves would say if they knew the immensity of the company's oil holdings (and so far as we are aware, these are the first details that have ever been made public), when we say that the man who has the sagacity and foresight to purchase Southern Pacific around $100 per share is more entitled to his reward than his children or his grandchildren.

What we have described above is only another section of the Southern Pacific honeycomb. In our next article we shall give further details of the company's California oil holdings and the important part they play in the world's supply of petroleum.

Note:—In our issue of Oct. 26, page 5, it is stated that gross earnings of the Kern Trading & Oil Co. were apparently about $8,500,000. This should be net, before depreciation.

DR. CRANE ON BANKERS

Can Bankers learn anything?

It is a question that may be seriously debated. The odds are with the negative, for the banker is usually well encysted in tradition and so highly respectable that a new idea can hardly be inserted into his mind without a surgical operation.

On the other hand Bankers as a class are highly intelligent and it is not very easy to sell them bricks or real estate located a mile or so out in the lake.

Uncle Sam has shown them what a vigorous campaign among the common folk can do.

When the war is over this governmental activity will probably stop. Then will be the Bankers' opportunity. By concerted, lively, and intelligent advertising they can and should seek to draw this immense capital, that heretofore has been wasted, to their coffers, where it can be used in furnishing the much needed capital for the development of the country.—Dr. Frank Crane in the *N. Y. Evening Globe.*

The Steels and Peace

Outlook for Three Independents—Republic, Lackawanna and Sloss-Sheffield—Is the "Pauper" Cycle of the Steel Industry Approaching?

By A. C. LAURENCE

THE poor pre-war records of Republic, Lackawanna and Sloss-Sheffield are typical of the poor showings of the independent steel companies in their struggles against unfavorable competitive conditions in that period. Their earnings of the last three years are typical of the sudden prosperity which has been brought to the entire steel industry since the war.

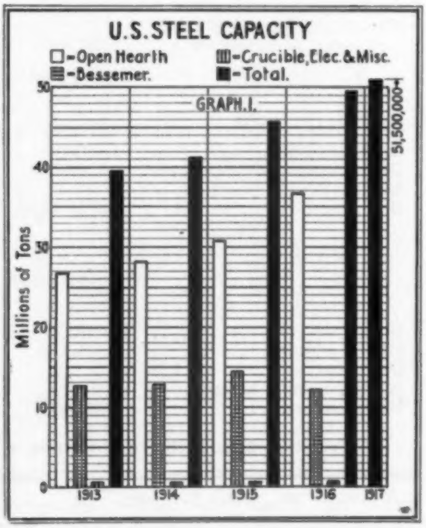
Lower Prices in Peace

It is almost universally admitted that prices will come down after the war. In the same breadth it is stated that the peace time demands for steel will be maintained at a rate which will virtually take up all the slack caused by the cessation of war order business, and that this will keep prices from going down much. But in the steel industry, prices have a faculty for declining very rapidly when they once start.

It should not be forgotten that the main factors causing the inflation in the present case are the insistent and insatiable demands arising from the necessities of war. Prices would be even higher than they are, were it not for Government regulation. To admit that prices will come down with peace, is therefore tantamount to admitting that the demand will not continue as urgent for steel products as it now is.

When we know that the steel capacity of the country has been expanded, in the last three years, at an unprecedented rate, as a glance at the graph which accompanies this article indicates, we may logically assume that when the abnormal demand which has brought this about, ceases, the capacity will be found to be temporarily in excess of the normal requirements.

Even if these requirements are as large as it is claimed they will be, they will not be of the urgent nature that present business is. Domestic and foreign consumers will be disposed to dicker for prices and they will be prone to do their buying cautiously. More especially will this be the case if they suspect that the steel companies are eager to book orders. And there is not



much doubt that the steel companies will be anxious to get business.

But if the smaller independents get all the business they can handle the big companies may have to do with less than they can handle. Rather than let their plants stand idle, with the resultant depreciation to machinery and partial disruption of their organizations, they will cut too. They can afford to cut deeper than the smaller producers, because their plants are

more efficient and their costs of production lower.

Prince or Pauper Era?

Right here, then, is where the greatest danger lies to steel company profits after the war. A price cutting war does not now seem possible. But wait. Andrew Carnegie characterized the steel industry as "Prince or Pauper," meaning of course that it was either enjoying extraordinary prosperity or suffering from the other extreme. There has seldom been a happy medium of very long duration. Heretofore, once prices have started to decline, they have tumbled.

The Government, it is intimated, may step in and take a hand in regulating prices until the worst of the readjustment period is safely passed. But it will be found a much more difficult task to set a limit on a declining market, than to fix a maximum price on an advancing market. Why? Because when prices are high and demand urgent, everybody is satisfied, since they are getting all the business they can handle at profitable figures and they don't have to go out looking for it.

There is another important phase of the price decline which is related to earnings; to wit, the depreciation in inventories. It is true that the companies which have direct government orders, are to be protected up to a certain point on the raw materials which they may have purchased to cover their Government work. But sub-contractors have no such insurance, and a large part of the business of the steel companies is sub-contract business.

To sum up—price is the one big factor by which steel company earnings will be regulated after the war. The chances are that prices will decline materially. For how long a period they will decline or remain low no one knows, but it will not have to be long to cause a decline in steel stock prices. As already suggested, the market position of these shares is vulner-

STEEL EARNINGS

Table I—Principal Items of Income Accounts Before and Since the War

A—Republic Iron & Steel Co.

	1913	1914	1915	1916	1917
Gross sales	$31,937,059	$21,366,249	$29,916,229	$52,844,018	$78,325,461
Oper. profits	4,884,872	2,330,673	5,439,598	16,544,336	28,329,718
Depreciation and Renewals	600,888	334,414	1,000,388	1,000,091	1,999,760
Excess profits taxes, etc.	....	....	....	....	9,878,657
Net income (after all other charges, including int.)	3,101,300	1,028,748	4,385,723	15,647,900	16,616,532

B—Lackawanna Steel Co.

	1913	1914	1915	1916	1917
Gross sales	$29,879,275	$16,281,639	$27,792,935	$53,970,836	$77,446,241
Oper. income	5,856,416	1,242,890	5,632,848	15,427,534	28,975,727
Depreciation and renewals	1,210,020	839,789	1,210,528	1,653,847	1,789,059
Excess profits taxes	....	....	....	....	10,040,000
Net income	2,755,883	*1,652,444	2,409,108	12,218,234	16,106,976

*Deficit.

C—Sloss-Sheffield Steel & Iron

	*1913	*1914	*1915	*1916	†1917
Gross	$5,072,137	$4,449,770	$5,601,312	$8,210,931	‡.........
Oper. income	739,659	584,720	667,628	1,845,614	$3,370,614
Depreciation	....	....	....	....	665,741
Excess profits taxes	....	....	....	....	325,000
Net income	678,466	490,139	522,388	1,912,624	2,152,373

*Year ended Nov. 30; †For 13 mos. ended Dec. 31; ‡Not reported.

able, due to the fact of their having been so widely distributed. The people who hold the steel shares now, are the kind to become disconcerted when things take a turn for the worse.

Let us see how Republic, Lackawanna and Sloss-Sheffield are fortified to face the less favorable market and industrial conditions which are in prospect.

Republic Iron & Steel

Republic Iron & Steel is generally regarded as one of the strongest independent companies. Since the war, its management has pursued the most consistently conservative policy of any steel company in the business, not barring U. S. Steel. No extra dividends have been paid on the common. The big earnings above the 7% paid on the preferred and the 6% on the common (which rate was not inaugurated until the last quarter of 1916), with the exception of a payment of 11% in 1916 on the preferred, made to clean up back dividends on that issue, have been plowed back into the property. The surplus so applied since 1914 (1918 partially estimated) will have amounted to over $32,000,000 by the end of 1918.

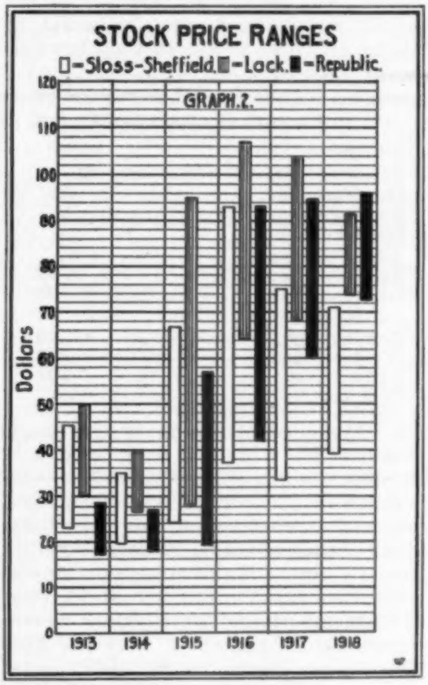
The plants of the company have been brought up to a very high state of efficiency. Also the company is well fortified with cash and other equally liquid assets. As of December 31, last the item of cash and U. S. Govt. securities amounted to $18,700,000 against $9,608,139 in 1916. There was however $8,600,000 in accrued taxes, payable last June, so that the net workable cash or equivalent, was reduced to $10,000,000. Such a reserve furnishes a strong bulwark for dividend payments.

Republic's inventories at the end of last year showed an increase of something less than $6,000,000 over 1914, so that the danger of depreciation here, seriously reducing working capital, does not appear imminent.

Republic is in a position to withstand quite a siege of hard times before being forced to curtail its dividends. But the stock has made such a great advance over its pre-war low levels that large holders have been tempted to realize their substantial profits and it is quite logical to expect Republic common to sympathize with the other steels in any decline which occurs during the readjustment period. The preferred, however, is attractive.

Lackawanna Steel

Lackawanna Steel has made, in many ways, greater strides than Republic since the war. But its expansion has been of a less substantial character. As our tables show the company has



been more liberal in dividend distributions, though the fact that it has only one class of stock and has greatly reduced its funded and floating debt, furnishes a justifiable basis for this policy.

Nevertheless Lackawanna faces a severer drop in earnings after the war than a company like Republic or U. S. Steel, because the geographical location of its plants place limitations on its markets. The company's main

works are at Buffalo, New York. It is a large manufacturer of steel rails, which product on account of freight rate differentials can be profitably supplied to only a few railroads.

The opening of the Erie Basin canal gives the company cheap water transportation to the Atlantic Seaboard but in this respect it will have no advantage over its very numerous competitors for export business and it is doubtful if it can go into their territories and successfully sell its products directly after the war. In time the company should be able to establish a wider market than it had before the war but in the meantime its earnings are bound to slump sharply; as indeed they have already started to do.

temporarily. Under the circumstances, lower prices are in prospect for the stock.

Sloss-Sheffield

Sloss-Sheffield is worse off in location than Lackawanna. Its plants are in Birmingham, Alabama. The company was in a deplorable physical and financial condition before the war and its high costs had always prevented it from making a decent showing. While its physical condition is improved the company still falls short of being in the best of shape to meet increased after-the-war competition. The South's steel plants have probably expanded more out of proportion to normal demands than those in any other section of the country and competition for business will prove a very serious obstacle to big profits after the war.

TABLE II—EARNINGS ON STOCKS AND DIVIDENDS PAID

Republic	1913	1914	1915	1916	1917	1918(est)
Earnings, pfd.	$12.41	$ 4.10	$14.06	$59.16	$63.42	$40.00
Dividends, pfd.	7.00	3.50	4.75	18.00	7.00	7.00
Earnings, com.	4.97	0.56	6.50	47.67	51.88	32.00
Dividends, com.	....	....	....	1.50	6.00	6.00
Lackawanna						
Earnings, com.	7.93	....	6.93	34.81	45.89	25.00
Dividends paid	1.00	....	....	9.00	9.00	8.50
Sloss-Sheffield						
Earnings, pfd.	*11.26	*7.31	*7.79	*28.55	†32.12	‡60.00
Dividends paid	7.00	7.00	5.25	7.00	7.00	7.00
Earned, com.	2.09	0.21	0.53	14.44	15.78	35.00
Paid, com.	....	....	....	....	1.50	§12.00

*Years ended Nov. 30; †For 13 mos. ended Dec. 31; ‡Year ended Dec. 31; §Includes extra of $6.

Lackawanna's total working capital showed an increase at the end of last year of only about $3,500,000 over 1914 and its net workable assets outside of inventories, showed an actual decrease. The company had $9,139,000 in inventories on December 31, 1914 and $16,964,000 on December 31, 1917, an increase of $7,800,000 or 80%, in round figures.

The chances are that Lackawanna will have to suffer a large part of its increased plant facilities to remain idle for a time, or will have to accept some considerable business at a very close margin. In either event the probabilities favor a sharp reduction in earnings and since the company is not in the best financial shape to meet the test, it may have to reduce dividends

A comparison of Sloss-Sheffield's earnings with those of the other two companies reveals that it has fallen far below them. Consequently it has had no such opportunity as they, to fortify itself by return of surplus to the property. While earnings are currently showing a very handsome margin over the dividend, the lack of faith in its maintenance is easily discernable in the price of the stock. At round 55 the yield is about 11%.

Sloss-Sheffield is not an attractive stock either for investment or for profit at this time.

The Rubber "Big Three"

U. S. Rubber, Goodyear, and Goodrich—Their War Activities, Peace Prospects and Position as Investments

By WILL D. BREEN

FEW industries in the United States have undergone such a tremendous expansion in the last five years as the rubber industry. Sales have increased by leaps and bounds, reaching new heights each year—heights which a few years back would have been considered unobtainable. This expansion, occurring during the war period, must certainly be the subject of much thought by investors in view of the general belief that peace is not far off.

A consideration of the scope of the industry as a whole gives interesting sidelights into its vastness. In 1917 approximately 175,000 persons were engaged in its various phases, scattered throughout the four corners of the globe. The rubber business of the world aggregated about $1,000,000,000 in that year and of this colossal sum the manufacturers of the United States handled more than $680,000,000, or nearly 70% of the total. Approximately 350,000,000 pounds of rubber were used by American companies last year in producing their widely diversified lines of merchandise. And of this total consumption of crude rubber the automobile industry accounted for close to 250,000,000 pounds.

Now what effect will peace have upon this great industry? The statistics given in the preceding paragraph show that the rubber companies of this country, by their commanding position in the manufacturing end of the trade, will be most affected by the benefits or losses that may come to the business after the war. This, certainly, is the point which is of vital interest to the investor.

The rubber companies manufacture many articles for which there is an urgent demand, due to the war. Based on the amount of governmental business contracted for, these articles range in importance as follows: First, footwear; second, tires, and third, mechanical goods, this latter line including all kinds of hospital appliances and hundreds of other implements. The first class, footwear, forms the greatest aggregate by far of the three classes, due to the extraordinary demand for boots, shoes and other rubber footwear.

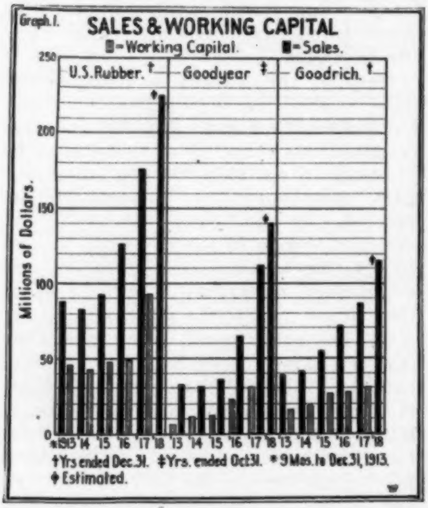
Despite the essential features of these goods the war business of the United States Rubber Co. in 1917 represented less than 5% of its total sales of more than $176,000,000, or about $9,000,000 worth of business. This year, due to the heavy increase in the number of men in the country's armed forces, the war business of the rubber companies averages about 15% of their total.

On the other hand, think what the war has done to the business of these companies, due to the gradual elimination of the manufacture of automobiles. Every car made requires at least four new tires and while the increased production of trucks pull in some of the slack, it cannot entirely replace the loss due to the stopping of the manufacture of pleasure cars. Peace would undoubtedly lift the ban now placed on the automobile manufacturers and the resultant increase in tire business, in the belief of competent rubber men, would more than make up the loss in war business.

The companies which undoubtedly hold the most interest for the investment public are the U. S. Rubber Co., Goodyear Tire & Rubber Co. and the B. F. Goodrich Co. These three organizations reported a total of $275,000,000 worth of gross business in 1917, or 40% of the country's total. This year their combined sales are estimated at $470,000,000 clearly indicating the manner in which the business is growing.

U. S. Rubber Co.

The United States Rubber Co. enjoys the reputation of being the premier rubber manufacturer of the world, and rightly so. Its sales this year are estimated at not less than $225,000,000, nearly one-fourth the total rubber business of the world in 1917. Compared with last year these estimated sales show a gain of nearly $50,000,000. Going back still further to 1913, the last pre-war year, this year's sales should show a gain of



$134,000,000 over the $91,000,000 reported for 1913.

The activities of the company's subsidiaries include every line of rubber manufacture. Among the products are rubber boots and shoes, solid and pneumatic tires, bicycle tires, fire, garden, air brake and steam hose, belting, packing, hard rubber goods, druggists' sundries and rubber thread. The organization also includes a subsidiary to handle the large export business while still another operates a huge plantation in Sumatra for the cultivation of rubber trees.

A peculiar anomaly of the company's prosperity is that dividends on the common stock have been withheld for three and one-half years because the company had so much business. The situation is similar to other industrial organizations—the tremendous increase in business necessitating a similar increase in inventories at high prices. Under such conditions a vast amount of working capital is required at all times to meet existing conditions with a goodly sum in the offing to meet any emergency. To impair working capital by paying dividends to common stockholders would reduce the company's ability to handle the vast amount of business offered.

One has but to consider the tremendous increase in sales over the last four years, as shown in the graph, to realize the importance of a substantial working capital. The record made in regard to working capital certainly reflects great credit on the management. In 1917, with sales $50,000,000 greater than the previous year, the company actually reduced its current liabilities and at the same time increased its current assets by nearly $42,000,000, the net result being a 100% increase in working capital. The table herewith indicates how this splendid showing was accomplished.

The company is in a splendid position for maintaining its supply of crude rubber, due to the ownership of a large plantation on the Island of Sumatra. Last year this plantation supplied it with 15% of its total crude rubber needs, about 7,000,000 pounds of the 43,000,000 pounds consumed. In the current year about 10,000,000 pounds, or 20% of requirements, will be obtained from this source while the 1919 receipts from the plantation are expected to be about 25% of the company's crude rubber needs. Thus the company is gradually making itself independent of the rubber market, with its fluctuating prices, by the production on its own lands. In addition, a tidy sum is saved by this supply when the cost of production is compared with the cost in the open market. Crude rubber from the Sumatra plantation can be laid down in this country at a cost of about 25

cents a pound, while crude rubber in the open market has recently commanded 60 cents a pound.

Numerous new uses for rubber have been developed in the last few years, the most important of them being the successful campaign to supplant leather soles on shoes by rubber. The rubber heel business, for a number of years dominated by a single independent company, has been entered by the United States Rubber Co. and others of the big rubber manufacturers with good results.

But for the lapse of dividends, common stockholders would be jubilant over the accomplishments of their organization in the war period. But their day is coming and when it does, there is every indication that it will prove to have been well worth waiting for. The figures stand for themselves. In 1915, 1916 and 1917 the company showed surplus earnings, applicable to the common stock, aggregating $57.00 a share on that issue. Earnings for the common this year will undoubtedly run $30 a share, this being a conservative estimate. Thus in four years there will have been amassed about $87.00 a share on the common while dividends in that period amounted to but $3.00 a share. Profit and loss surplus on December 31 last was close to $32,000,000 and at the end of the current twelve months should equal, if it does not exceed, the $36,000,000 common outstanding.

This is a splendid outlook for the holders of U. S. Rubber common. The time is certainly approaching when the needs of working capital will not be as large or as urgent—then a period of plenty should succeed the lean years as regards dividends.

Goodyear Tire & Rubber Co.

The Goodyear Tire & Rubber Co. is considered by many to be the fastest growing industrial company in the country. Its record would seem to confirm the appellation. From a gross business of a little more than $2,000,000 in 1908 this organization has built up its sales to such an extent that they amounted to $111,450,643 for the fiscal year ended October 31, 1917, while for the current year sales are estimated at $140,000,000.

The answer to this wonderful expansion is the company's leading position in the manufacture of tires and with the rapid development of the passenger automobile and motor truck in recent years, no other result could be expected. Tire products are of every description, solid and pneumatic, and are used by all sorts of conveyances including aeroplanes, automobiles, trucks and bicycles. In 1917 the company sold in excess of 5,000,000 tires which is estimated to have been more than 20% of the total output of the country.

U. S. RUBBER

Current Assets

	1917	1916
Cash	$9,463,833	$10,123,709
Inventories	72,440,170	48,530,397
Notes & Loans Rec.	2,056,906	1,764,000
Accounts Receivable	36,313,607	26,052,707
Total	$128,212,436	$86,470,813

Current Liabilities

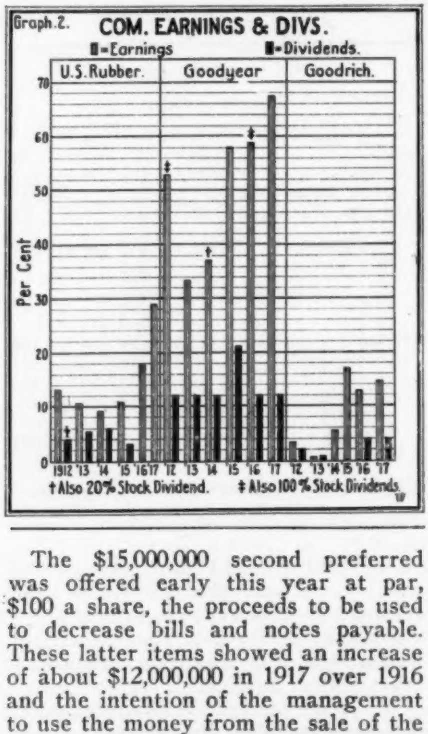
	1917	1916
Accounts Payable	$8,548,684	$6,526,168
Drafts Payable	1,877,676	1,891,093
Notes Payable	19,439,955	26,703,866
Accrued Taxes	5,429,718	....
Total	$35,107,033	$37,145,694
Working Capital	$93,105,403	$45,325,119

The tire business represented, roughly, about $85,000,000 of the company's sales of more than $111,000,000 in 1917. The balance, about $25,000,000, was made up of various other rubber products.

While the production of automobiles has been curtailed this year, the government's need for truck and aeroplane tires has taken care of a large part of the loss in demand from automobile makers. The need for tires by cars already in service, of course, is still maintained. Therefore, the company's position, so far as its chief product is concerned, is a good one, for it seems certain that with the termination of the war the ban on automobile

manufacture will be lifted and the loss in governmental business replaced by the demand for tires to equip new machines.

The company's capitalization has undergone numerous increases. Nothing else could be expected of a business showing such tremendous gains from year to year. From a capitalization of $171,800 preferred and $365,000 common in 1908, the outstanding capital has been increased to $24,393,700 first preferred, $15,000,000 second preferred and $20,278,620 common stock.



The $15,000,000 second preferred was offered early this year at par, $100 a share, the proceeds to be used to decrease bills and notes payable. These latter items showed an increase of about $12,000,000 in 1917 over 1916 and the intention of the management to use the money from the sale of the second preferred, along with part of this year's earnings, to reduce the current liabilities, is expected to result in the company making the strongest financial statement in its history for the year ended October 31, 1917.

The big increase in current liabilities last year, however, did not result in a reduction in working capital. Rather that item showed a gain of more than $8,000,000 over the previous year due to big gains in inventories and accounts payable. Working capital is a strong point with the Goodyear company, amounting to $30,731,046 on October 31, 1917.

The company is strong in earning power, net income for the 1917 fiscal year having been in excess of $14,000,000, an increase of 100% over the $7,000,000 net income in 1916. As recently as 1913 net income was but a little more than $2,000,000. In the nine years from 1909 to 1917, inclusive, earnings on the common stock aggregated $652.14 a share while cash dividends paid in that period totalled $117 a share. A significant feature of the company's earning power is that in 1917 earnings for the common were $67.55 a share, the best showing on the junior issue since 1910. This notwithstanding the fact that in 1917 there was $20,278,620 common outstanding, the largest amount since organization. This shows that the numerous increases in capital have been warranted by the development of the business and the ability of the management to conserve a large amount of gross for net.

That the money raised by the sale of preferred stock in previous years, as well as part of surplus earnings, has been well invested is shown by the plant account, which stood at nearly $25,000,000 on October 31, 1917, as against $2,322,794 in 1911. An item worth noting is the patents and trademarks account which is carried at $1.00. This despite the fact that company controls valuable patents on tire-making machinery, (it manufactures the machines itself), from which it receives large royalties from other manufacturers using the machines.

There seems to be nothing in sight now but continued prosperity for the company. It might be looking for too much to expect sales to continue the big gains made in recent years, but certain it is the company's main business, tires, will continue good after the war. At any rate there is no indication of common stockholders having to forego their regular dividends of $12 a year.

B. F. Goodrich Co.

The B. F. Goodrich Co., the third largest manufacturer of rubber in this country, is also handling a record amount of business. Sales this year are estimated at $115,000,000 as against $87,000,000 in 1917. Since its organization in 1912 the company has tripled its business. The Goodrich organization, as it exists today, is the most recently formed of the big manufacturers having succeeded the old company of the same name which was organized in 1880. The Diamond Rubber Co., a large manufacturer of tires, was acquired soon after the present company was formed.

Like the other rubber manufacturers, Goodrich is finding a ready market for all the merchandise it can turn out, its line including rubber goods of practically every description.

The Goodrich company showed the greatest operating efficiency of the three big manufacturers in 1917, its ratio of net income to sales in that year having been 17.06% as compared with 12.6% shown by the Goodyear company and 12.46% by the United States Rubber Co. This was an improvement of almost 2.50% over the 1916 ratio and on sales of more than $87,000,000 in 1917 it took care of practically all of the $2,250,000 war taxes charged out of earnings in that year. Net earnings in 1917 were equivalent to $14.50 a share on the common stock. In the current year net for the common is expected to be in excess of $20 a share, earnings in the first six months, after taxes and preferred dividends, having been equal to $10.40 a share on the common.

From 1912 to 1917, inclusive, the company earned a total of $55.22 a share on the common stock and in that period disbursed a total of $11 in dividends, the present rate of $4 a year having been started in 1916. Adding estimated earnings of $20 for this year, the company will have earned a total of $75.22 a share on the common by the close of 1918 and disbursed $15 a share in dividends since 1912.

At the close of 1917 profit and loss surplus amounted to $21,216,567, having been built up from the meagre sum of $806,235 in 1912. A considerable addition to this item can be looked for this year, possibly as much as $10,000,000.

At the time of its formation a liberal amount of the capital assets was made up of $57,798,000 allotted to "goodwill." This was almost equal to the common stock, $60,000,000. Of course such an item represents practically no tangible value, but since the organization real assets have been placed behind the junior issue from year to year and on December 31 last amounted to more than $22,000,000 or about $37 a share on the common stock.

In the face of the large business and the ability of the management to conserve substantial amounts of gross for net, there would appear to be no uncertainty as to the continuance of the $4 dividend. At the same time the rapid growth of the business has forced the company to borrow funds from banks and until these are liquidated no substantial increase in the common dividend can be looked for.

On the whole the holders of rubber securities can feel confident that their companies are doing a splendid work in meeting the big demand for their products, and, what is more important, are showing the results of this big business in their net earnings.

Industrial Earnings, Dividends and Income Yields

In view of the wide discrepancy between present industrial earnings and last year's—chiefly because of the unsettled conditions resulting from the war—our usual "Bargain Indicator" has been modified as below. The *dividend rate* given covers regular declared dividends on the yearly basis. Extra or stock dividends are noted from time to time in the comment column on the right, which also summarizes important price-affecting factors. The *yield on price* is based on regular dividends and the last reported sale or bid price before going to press. A minus sign before earnings' columns indicates a deficit for the year in dollars per share.

INTENDING PURCHASERS should make careful Comparisons, including former years. They should also read the "Investment Digest" for additional information. If a yearly subscriber, our Inquiry Department may be consulted.

Companies Which Have Reported for 1917

	Dollars Earned Per Share.					Present			
	1913.	1914.	1915.	1916.	1917.	Div. Rate	Recent Price.	Yield on Price	
Allis Chalmers pfd	4.77	—0.15	6.80	19.97	17.04	$7	80	8.75%	Paying off back dividends.
Amer. Agri. Chem. com	5.23	7.68	10.96	20.57	21.11	8	100	8.00	Peace prospects bright.
Am. Beet Sugar com	3.87	1.01	7.50	14.30	30.55	8	65	12.30	Earnings decrease.
Amer. Can com	2.66	3.61	5.20	12.31	21.84	0	43½	0.00	Excellent earnings.
Amer. Car & Foundry com	4.10	5.53	0.77	2.39	27.36	8	86	9.30	War prosperous.
Amer. Cotton Oil com	3.38	1.98	7.05	6.99	4.56	4	41	9.75	Peace stock.
Amer. Hide & L. pfd	3.66	0.85	7.38	12.64	13.56	5	81	6.17	Peace outlook not so good.
Amer. Linseed pfd	2.96	1.83	6.01	8.83	12.82	7	78½	8.91	Increases in price helpful.
Amer. Loco. com	17.74	1.30	—13.00	36.07	21.81	5	64	7.81	Capacity production.
Amer. Smelt. & Ref. com	7.47	6.51	16.80	31.79	24.14	6	89	6.74	Mexican situation O. K.
Amer. Steel Foundries	6.01	—1.35	—1.20	19.89	30.19	7‡	88	7.95	Possible capital readjustment.
Amer. Sugar Ref. com	—0.25	2.90	4.99	18.46	20.09	7**	109	6.42	Price restriction felt.
Amer. Tobacco com	28.12	21.04	20.06	22.70	25.21	20	190	10.52	Price increase helpful.
Amer. Woolen com	—9.89	—0.06	6.40	15.31	40.42	5	50	10.00	Large government orders.
Amer. Zinc com	—4.65	1.82	54.92	139.52	11.08	0	14½	0.00	Capacity production.
Anaconda Copper	2.61	1.89	7.16	24.85	17.04	8	70	11.42	Large expansion in allied lines.
Baldwin Loco com	13.09	—5.25	7.14	22.91	40.22	0	80	0.00	War prosperous.
Barrett Co. com	15.61	10.31	21.19	32.84	20.54	7	103½	6.76	Earnings well up.
Bethlehem Steel com	27.50	32.60	112.50	286.30	43.20	10	65	15.38	War stock.
Burns Bros. com	4.41	8.40	12.11	10.03	21.27	10	159	6.27	Large expansion program.
Butte & Superior	3.47	5.21	33.37	31.79	.94	0	25	0.00	Earnings on the increase.
Cal. Petroleum pfd	11.74	11.54	7.80	8.44	12.41	7	62	11.29	Returns large.
Central Leather com	5.18	6.41	10.82	33.14	30.42	5‡	64	7.81	Government business.
Chino Copper	3.51	3.44	7.67	14.40	11.27	4	40	10.00	Expansion program being followed.
Col. Fuel & Iron com	3.21	4.79	4.58	5.97	11.15	3	40	7.50	Output well up.
Continental Can com	4.88	10.69	12.05	22.38	32.63	6	70	8.57	Government orders.
Corn Prod. Ref. pfd	7.66	7.73	10.62	20.39	38.05	7	101	6.93	Peace would benefit.
Crucible Steel com	12.84	—2.94	5.39	45.89	42.13	0	56	0.00	Outlook good. Excellent earnings.
Cuba Cane Sugar com	.....	.....	.....	17.36	7.63	0	31	0.00	Price increase benefits.
Distillers' Securities	1.17	2.28	4.64	10.30	14.83	2‡	48	4.16	Prohibition may harm somewhat.

Distillers' Securities	1.17	2.28	4.64	10.30	14.83	2§	48	4.16	Prohibition may harm somewhat.
General Chem. co.	19.19	18.73	44.27	86.76	55.19	8	175	4.57	War earnings large.
General Electric	12.88	11.12	11.57	18.31	26.50	8	154	5.19	Earnings large.
Goodrich (B. F.) com.	.83	5.62	17.17	12.76	14.50	4	54		Peace would benefit.
Great Northern Ore	.71	.54	.70	1.39	.....	0‡	32	0.00	Shaping up well.
Greene Cananea Co.	2.33	1.97	1.04	7.03	5.05	8	54	14.81	Production nearing capacity.
Gulf States Steel com.	.....	.....	10.17	30.25	34.83	10	67	7.40	War stock.
Inter. Agri. Corp. pfd.	.....	0.65	.....	9.80	9.31	5	57	8.77	Peace outlook bright.
Inter. Mer. Mar. pfd.	4.44	.....	26.26	42.10	22.72	6	121	4.95	Large shipping sale.
Inter. Nickel com.	4.17	3.40	4.44	6.83	7.78	4	34	11.75	Earnings back in property.
Maxwell Motor com	.....	0.30	5.33	29.10	29.62	0	34	0.00	Government orders large.
Mex. Petroleum com.	11.22	4.78	4.93	15.79	.....	8	170	4.70	Excellent peace possibilities.
Miami Copper	1.75	1.65	4.55	10.39	4.28	4	28	14.28	Working with Government on tests.
Midvale Steel	.....	.....	1.44	31.46	35.58	6	45	13.33	War products.
Nat. Biscuit com.	9.59	11.74	9.52	8.19	9.87	7	105	6.67	Peace prospects bright.
National E. & S. com.	1.13	—0.32	2.10	12.74	23.39	6	44	13.63	Large earnings.
National Lead com.	3.64	3.73	4.86	6.16	15.44	5	60	8.33	Earnings increase.
Nevada Cons. Cop.	1.45	0.74	2.78	7.50	4.83	3	20	15.00	Production increased.
New York Air Brake	6.55	6.41	13.43	82.15	18.94	20	112	17.85	Dividend not secure.
Pittsburgh Coal pfd	10.07	5.06	6.11	11.64	.....	6	83	7.23	Coal price regulation effective.
Pressed Steel Car com.	10.56	0.14	3.60	15.01	10.00	8	66½	12.03	Government work.
Pullman Co.	9.28	9.04	8.80	10.32	11.36	8	125	6.40	Overcoming obstacles of labor.
Railway Steel Spring com.	1.31	—0.42	3.10	20.49	32.31	5§	67	7.43	Earnings well maintained.
Ray Cons. Copper	1.49	1.29	2.73	7.43	6.15	3	24	12.50	Peace prospects good.
Republic Iron & Steel com.	4.97	.56	6.49	47.95	51.88	6	81	7.40	War earnings large.
Sears, Roebuck com.	21.17	21.31	17.57	25.86	18.08	8	158	5.06	Record earnings.
Sloss-Sheffield com	2.09	0.21	0.53	14.44	15.77	6	52	11.53	War stock.
Studebaker Corp. com	2.48	13.09	26.55	26.25	9.11	4	66	6.06	Earnings increasing.
Tobacco Products com	2.52	1.98	2.69	5.44	9.32	6	77	7.78	Bulgarian market good.
United Cigar Stores com	6.83	7.09	7.69	9.48	.....	9	100	9.00	Higher prices will benefit.
United Fruit	14.52	6.19	16.11	24.34	26.72	8	145	5.51	Earnings good.
U. S. Cast Iron Pipe pfd.	5.28	0.29	1.37	12.12	11.18	5	45	11.11	Government orders.
U. S. Ind. Alcohol com.	1.94	1.94	14.60	36.13	54.67	16	100	16.00	War stock.
U. S. Rubber com.	9.53	8.00	9.51	15.12	28.77	0	67	0.00	Peace would benefit.
U. S. Smelt. & Ref. com.	5.36	1.60	13.93	20.46	.....	5	47	10.63	Benefit from high prices.
U. S. Steel com	11.02	.....	9.96	48.46	46.29	5§	102	4.90	Earnings decrease. Extra dividend reduced.
Utah Copper	5.05	5.02	10.70	24.10	17.66	10	89	11.23	Earnings maintained.
Va.-Carolina Chem. com.	0.53	3.40	7.55	10.39	10.92	4§	55	7.27	Company entrenching.
Westinghouse Elec. com	4.15	5.35	2.43	8.53	12.08	3½	44	7.95	Large cash balance.
Willys-Overland com	4.63	3.75	12.56	5.75	3.16	1	24	4.16	War work. Earnings increasing.
Woolworth (F. W.) com	10.82	10.87	13.19	15.57	16.72	8	120	6.67	Excellent peace prospects.

**3% extra in quarterly installments of ¾% each. §Extra dividends. ‡No regular dividend. Has made two distributions of $1 each this year.

Railroad and Industrial Digest

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell

Note.—The Railroad and Industrial Digest, Notes on Public Utilities, Oil Notes and Mining Digest, contain condensations of the latest news regarding the companies mentioned. The items are not to be considered official unless so stated. Neither THE MAGAZINE OF WALL STREET nor the authorities for the various items guarantee them, but they are selected with the utmost care, and only from sources which we have every reason to believe are accurate and trustworthy. Investment commitments should not be made without further corroboration.—Editor.

RAILROADS

ATCHISON—Federal Agreement Ready—While, at this writing, the Federal operating contract has not been signed, terms have been agreed upon. Atchison asked for some additional compensation, and it was granted, an indication that the Federal Railroad Administration is disposed to take a liberal view of the carriers' claims. Atchison's revenues from the Government will be $43,121,982 a year, which places the continuance of the 6% dividend beyond the shadow of doubt. Shares of the road have been comparatively strong in the recent market, undoubtedly in recognition of the strengthening of the investment position of the stock.

CHICAGO, MILWAUKEE & ST. PAUL—Issue Proposed—Directors have under consideration issuance of approximately $11,000,000 in notes or equipment trust certificates to pay for cars and locomotives which the road was recently authorized to build and purchase. So far as can be learned however the question of the proposed issue is still in the preliminary stages. It may be remembered that several months ago St. Paul was reported to be negotiating for a similar issue, but the negotiations were unsuccessful, as, it was understood, bankers approached believed that the time was inopportune for floating the securities.

CHICAGO & NORTHWESTERN — Contract Executed—Under the contract signed on October 22 by Director-General McAdoo, the road will receive an annual rental of $23,364,028. This was one of the first contracts executed, and it is estimated that by its terms Chicago & Northwestern will show a surplus equal to 9% or better, on the $145,000,000 common stock, which is 2% in excess of dividend requirements.

COLORADO & SOUTHERN—Compensation Fixed—Federal operating contract has been signed, by which the system will receive a total rental compensation of $4,724,964. The completion of the contract negotiations was shortly followed by a resumption of dividends on the first preferred stock at the rate of 4% a year. No action has as yet been taken on the second preferred which is entitled to the same rate. The compensation as fixed, will allow earnings of close to 4% on the common stock, after allowing for payments on both issues of preferred stocks. The Burlington owns $24,000,000 of the $31,000,000 common outstanding, but the Burlington will not miss the non-resumption of payments on the junior shares.

NEW HAVEN—Asks for Added Compensation—Has joined the growing number of rails, who believe that they are entitled to a larger rental from the Government than the Interstate Commerce Commission reports for the three test years would indicate. According to these reports New Haven would be entitled to compensation of at least $16,800,000 a year, which sum would indicate a balance of a little over 2% on the $157,000,000 stock. The management thinks this compensation too low, and is asking additional sum of $2,000,000, or a total rental which would mean 3.30% on the outstanding stock. The additional compensation is requested because of some $17,000,000 expenditures on property and equipment during the three test years, and in addition the company seeks an adjustment in the matter of car hire. Whether or not the added compensation is granted, the outlook for the common stock cannot be regarded as particularly encouraging from the standpoint of earning power.

NEW YORK CENTRAL—Quarterly Report, June 30, 1918—Gross revenues were $67,251,819 as compared to $60,903,609 in same period in 1917. Net revenue was $5,817,766, as compared to $17,498,541 in 1917. Net income was $917,803, as compared to $13,407,849 in same period in 1917.

NORTHERN PACIFIC—Contract Ratified—Stockholders ratified the operating contract with the Government at a special meeting held on October 25. Subject to slight modifications, the amount of compensation to be paid the road is $30,130,069. It is reckoned that on this basis Northern Pacific will have a balance for dividends of approximately $20,000,000, equal to something more than 8% on the $248,000,000 stock outstanding. Dividends of 7% require $17,360,000, so that the road promises to have a balance, after all disbursements, of over $2,500,000. The shares are selling to yield better than 7% on the purchasing price.

ONTARIO & WESTERN—Contract—At a special meeting, stockholders of New York, Ontario & Western accepted company's contract with Government for use of its road during Federal control. The amount of the company's rental compensation has been fixed at $2,103,589. Assuming other income and fixed charges equal to those of last year the compensation mentioned would mean approximately 1.6% earned on $58,113,900 stock. Last year, however, earnings of coal subsidiaries were very large and they began paying interest on their bonds, held by the Ontario & Western, as well as accrued back interest. Only a part of these payments were credited to the year's other income. The management expects similar payments from the coal companies this year.

PENNSYLVANIA—Profits on Southern Pacific Stock—Back in July, 1913, following the Supreme Court decision ordering the dissolution of the Harriman merger, Pennsylvania purchased $38,292,400 Southern Pacific stock held by Union Pacific and paid for it with $21,273,700 preferred and $21,273,600 common stock of the Baltimore & Ohio. Southern Pacific and B. & O. common were taken at par, and B. & O. preferred at 80. This "switch" has meant millions in profits to Pennsylvania, which still owns 320,252 shares of Southern Pacific. At 105 Southern Pacific showed an advance of 13 points over the market price when Pennsylvania acquired the stock, which means a profit of $4,136,276. At 56 Baltimore & Ohio common is 32 points below the price at which Pennsylvania sold it to Union Pacific, and at 60 B. & O. preferred is 20 points lower. The strength in Pennsylvania stock was attributed to the realization of the profits made in a deal whose origin may be traced to a court decision.

SOUTHERN RAILWAY—Report—September gross was $13,394,715, an increase of $5,264,683 over 1917. Net operating income was $4,609,948, an increase of $2,307,931 over 1917. Nine months gross was $93,110,471, an increase of $28,402,664 over 1917. Net operating income was $22,817,778, an increase of $4,919,931 over 1917.

TEXAS & PACIFIC—September Report—Gross earnings for the month of September was equal to $2,521,773 as compared to $1,862,020 for the same month in the previous year. Net operating income for the month was $327,001 as compared to $530,821, a decrease of $203,820 from last year. Gross for nine months ended September was $18,959,541 as compared to $15,891,191, an increase of $3,068,350 over the same period last year. Net operating income for the period was $2,650,998 as compared to $3,632,289 for the same period the year previous, a decrease of $981,291.

UNION PACIFIC—Bond Prices—The 6% 10-year collateral trust issue sold last summer at 98¼ advanced to 104, and have been in active demand practically ever since they were placed upon the market. The first lien and refunding 4s of 2008 and first mortgage and land grant 4s, 1947, two of the best rail bonds on the list, have continued to sell at comparatively low prices. Union Pacific's financial position is of the best, which is not exactly a fresh statement, but which will bear repetition. As of December 31, 1917, total assets amounted to $921,273,291, while the funded debt was $335,099,365. Profit and loss surplus amounted to $124,354,104; reserves for depreciation of securities $50,000,000 and reserve for depreciation of property $22,671,108.

WABASH RY.—Report—September gross was $4,550,247, an increase of $1,008,526 over 1917. Net operating income was $346,068, a decrease of $485,697 from 1917. Nine months gross was $34,351,330, an increase of $4,629,750 over 1917. Net operating income was $2,141,784, a decrease of $3,279,381 from 1917.

INDUSTRIALS

ALLIS CHALMERS—Business on Hand—Unfilled orders increased from $28,976,000 in January to $30,856,000 in August. The plant output in August was $3,167,000, representing sales billed. New business booked in August was $5,000,000. Working capital in August stood at $21,743,000, an increase of approximately $5,000,000 over the January total. According to the company's summary, of the $17,204,000 actual inventories, $13,436,000 represents work in process of manufacture or manufactured material, all of which has been sold, so that there remains only $3,868,000 actually unsold inventories. Allis Chalmers is a company which has had big earnings under war conditions but before the war never revealed a substantial earning power.

AMERICAN BEET SUGAR—Selling Price and Costs—Uncertainty exists as to whether the advance of 1½ cents a pound on the price of beet sugar allowed by the Food Administration, will offset increased production costs. To American Beet Sugar the higher price, based on last year's production, means $2,500,000 additional gross receipts. That is only one side of the picture, as estimates are made that higher wages and materials costs will bring manufacturing costs up to 2 cents a pound more than last year. These expectations are responsible for the predictions that earnings for the fiscal year ending March 31, 1919, will be less than those for the previous year, when $18.90 a share was returned on the common stock.

AMERICAN COTTON OIL—Status—Estimates of earnings run from $13 to $16 a share after taxes. At present company is paying 4% on common stock and some of those interested in it anticipate an increased distribution at November meeting. There has been an enormous increase in demand for products, coupled with higher prices obtained, cottonseed oil having sold as high as $21 a barrel compared with $15 before war. The fertilizer plants have been working to capacity and in this department especially will company benefit when peace comes. In August financed an issue of $5,000,000 7% one-year notes, part of which was to refund an expiring issue and balance to take care of its increasing business. Company's current assets on June 30, 1918, exceeded liabilities by more than $14,500,000.

AMERICAN LOCOMOTIVE—Earning Status—If locomotive companies make an operating profit of 7% on Railroad Administration contracts, American Locomotive should show a gross profit of about $10,000,000 in the fiscal year which began July 1st. Excess profits taxes may be expected to reduce this substantially but as far as may be judged at present, the company has a good chance of at least equalling last year's showing, when about $17.00 a share was earned on the common stock. American Locomotive has completely wiped out its note indebtedness, which, as of June 30, 1918, stood at over $8,000,000. The company has no war orders on its books and is working exclusively on railroad equipment contracts.

AMERICAN STEEL FOUNDRIES—Floating Debt—Except for increase occasioned by subscription to new Liberty Loan, has practically cleaned up its floating debt, which at opening of year stood at $3,125,000. It has also bought in about $500,000 of its 4% debentures and is in a position to cancel remaining $1,200,000 if money conditions were more favorable to retirement of 4% bonds. With debentures out of way there will be nothing ahead and a wealth of assets behind $17,184,000 common. The company now is a much different proposition from company that emerged from 1908 reorganization. Then it had plenty of plant value—plenty of bonded debt—but little working capital. Now it has both plants and working capital and no bonded debt to speak of. In tangible assets there will probably be by end of year some $34,000,000 or $200 a share for stock. It is this situation, which may very likely make for serious consideration of recapitalization question, by no means a dead issue as yet.

AMERICAN WRITING PAPER—New Bond Issue—Plan of bondholders' committee for taking care of first mortgage 5% bonds, due July 1, 1919, provided for reduction in authorized bonded debt from $17,000,000 to $12,000,000. There are $11,000,000 bonds in hands of public. Each $1,000 is to be exchanged for $1,000 of new issue, dated Jan. 1, 1919, and mature Jan. 1, 1939. Interest on new bonds will be 7% from Jan. 1, 1919, to Jan. 1, 1921. Thereafter 6%. If war, however, continues beyond Jan. 1, 1921, 7% rate will continue until first coupon date after peace.

ATLANTIC, GULF & WEST INDIES—Status—Since Shipping Board assumed direction of lines, company has issued no report of earnings, but as all its vessels are under requisition of Shipping Board, its charter rates enable company to maintain earnings on about same level as for 1917. In latter year over $59 a share was earned for common. Company has lost approximately 11,000 tons of shipping since annual report was made public, but this is offset by additional tonnage received through Emergency Fleet Corporation, which commandeered a number of its vessels under construction when war broke out. Figuring its total deadweight tonnage at 265,000 tons, replacement value of its ships would be about $53,000,000, based on average price

per ton paid by Emergency Fleet Corporation for new ships under contract last July. With this, allowance should be made for market value of its vessels, which under present charter rates would add fully $100 a ton to value of shipping alone.

BETHLEHEM STEEL—Business on Hand—As of October 1, orders on the books totaled $506,000,000, compared with orders of $453,000,000 as of January 1, 1918. Business handled this year is expected to reach $400,000,000, which would be $100,000,000 more than the business done in 1917. Commenting on the outlook after the war, President Eugene Grace is quoted as follows: "In normal times but a very small percentage of our business is represented by ordnance products, on account of our large commercial steel capacity and our shipbuilding business." Orders now on the books covering shipbuilding are sufficient to carry the corporation at least through 1919. President Grace also stated that less than 10% of Bethlehem's business in normal times would be represented by what is known as ordnance or war products.

CENTRAL LEATHER—Report—Statement for quarter ended September 30, 1918, shows surplus after charges and Federal taxes, of $1,909,163, equivalent, after deduction of preferred dividends, to $3.34 a share on $39,701,030 common stock. This compares with surplus of $2,122,482, or $3.87 a share, in the previous quarter, and $1,913,984, or $3.35 a share on the common, in the third quarter of 1917.

CORN PRODUCTS—Earnings—For the nine months ended September 30, the surplus after interest charges, war taxes and preferred dividends, was $5,685,961, equivalent to $11.42 on the common stock, compared to $14.13 in the same period of 1917. Earnings were not up to expectations and heavier war taxes than were anticipated at the end of June are mainly responsible for the unexpected showing. Despite the smaller earnings, the stock has held well and in some quarters is regarded as a promising long-pull speculation.

LACKAWANNA STEEL—Question of Extra Dividend—Deciding factor will be the tax imposts levied in the pending revenue bill. As far as may be estimated company's earnings this year should be approximately $25 a share, but final form of the tax bill may upset this prediction. The question of an extra dividend will probably be discussed at the November meeting of the board, and there are reports that if taxes are not heavier than was originally estimated, stockholders will receive an extra payment of 3½%, making total dividends for the year 12%. Whether the action of the Steel Corporation in reducing the extra dividend will have any bearing upon Lackawanna's action remains to be seen.

LOOSE-WILES — Earnings — Common stock of the Loose-Wiles Biscuit Company in the past few months has moved steadily up from the low twenties to a level around forty, with very little notice. After the stock had reached its comparatively high point, it developed that earnings for the six months ended June 30 were reported as reaching $1,600,000 after all taxes, which is at the rate of over $33.00 a share on the $8,000,000 common stock. There are 21% accumulated dividends due on the $2,000,000 7% second preferred stock, which amounts to $421,000. The 7% dividend on the first preferred stock has been regularly paid since 1912. In view of the large earnings a resumption of dividends on the second preferred is anticipated and it is even said that there is a fair chance that the accumulations will be cleared off. The company's bank loans, which stood at $3,800,000 at the end of 1917, are expected to be reduced to $1,000,000 by the end of this year. Loose-Wiles stands second to the National Biscuit Company as a producer of crackers. A "gentleman's agreement" was recently effected with the National Biscuit Company whereby so-called cut-throat competition has been eliminated. Government orders for bread and crackers have been an important source of earnings to Loose-Wiles.

MARLIN-ROCKWELL — Peace Outlook—Has at present approximately $35,000,000 worth of contracts for munitions due for delivery to government by July, 1919. After delivery is completed, company will have released for production in normal lines about 835,298 square feet of floor space, a large amount of equipment and some thousands of trained employees. The field for bearings are vastly larger than that so far developed. The Rockwell Drake Division at Plainville, Conn., is producing very high grade bearings at a satisfactory profit; the demand has reached a point that warrants largely increasing capacity. Plant's product is capable of producing about $1,500,000 annually.

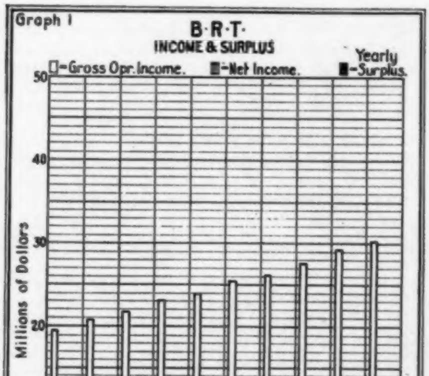
PACIFIC STEAMSHIP—Ships Bought—Has acquired 10 vessels formerly owned by Pacific Coast Co. which it has been operating under merger. It involved approximately $10,000,000. The old Pacific-Alaska Steamship Co., which afterward became Pacific Steamship Co., took over vessels of Pacific Coast Co. under a merger agreement some time ago. Rumor that sale was to have been made became current some two months ago, but was not confirmed until after annual directors' meeting in Portland, Me.

B. R. T.'s Future Bright

Contract With the City Is a Favorable One—When the New Subway Systems are in Full Swing Earnings Should Be Materially Improved—War Has Increased Operating Costs

By FREDERICK LEWIS

AS in the case of public utilities as a class, Brooklyn Rapid Transit has been decidedly handicapped in its earning power as a result of war conditions. The reasons for this are well known, costs have gone up while fares have remained stationary, thereby reducing the margin of profit.



In addition to this Brooklyn Rapid Transit has had to pay increased taxes. Fixed charges were also higher on account of new rapid transit properties placed in operation. When all this is taken into consideration, it would appear that the company has really made a commendable showing in the past year. For the year ended June 30, 1918 (see graph 2) 5.52% was earned on the capital stock as compared with 6.97% the previous year. A decrease, it is true, but not nearly as severe a one as might have been expected.

Rising Costs

In the current fiscal year there has been no improvement in conditions, in fact they are worse if anything. On July 26, for example, the company increased the wages of its transportation employees from 10% to 25%, which means an additional expense of over $1,000,000 a year.

In view of the unfortunate predicament in which the street railways of the country have found themselves there has been considerable agitation for an increase in the price of fares and in a great many communities substantial increases have been granted. Brooklyn Rapid Transit has tried to get a six cent fare adopted to remain in force until six months after the war and failing in this to obtain authority to charge two cents for transfers. No relief has been granted as yet, however. It is hoped that the company will be granted some concessions before the year is over. If this is not done, however, it is decidedly probable that net income for the year ended June 30, 1919 will show a decrease as compared with last year.

Future Possibilities

As far as the immediate present is concerned, therefore, the prospects of Brooklyn Rapid Transit do not appear

to be very brilliant. Looking a little further into the future, however, the outlook becomes decidedly brighter. In the first place, abnormal conditions brought about by the war, such as high cost of materials, etc., should gradually return to normal again after the war is over, bringing operating costs down. In the second place there will be a steady increase in traffic on the company's new lines. Some of these new lines have not given adequate returns when first put in operation, but in a comparatively short time their traffic will be developed to a paying basis.

In 1913 the Brooklyn Rapid Transit Co. through its subsidiary the New York Municipal Railway Corporation, executed contracts with the City of New York in connection with the plan for carrying out the so-called dual system.

TABLE I—BROOKLYN RAPID TRANSIT

Traffic Statistics

	1918	1917	1916
Passengers carried	771,044,274	760,519,397	728,465,567
Operating ratio	59.68%	57.09%	56.47%
Revenues and expenses per passenger:			
Passenger revenues (cts)	3.82	3.74	3.72
Total revenues (cts)	4.01	3.93	3.90
Operating expenses (cts)	2.35	2.20	2.16
Taxes (cts)	0.32	0.31	0.25
Interest and rentals (cts)	0.81	0.74	0.72
Surplus (cts)	0.53	0.68	0.77

Contract with City

The expense of equipping the new lines and part of the construction was to be provided by the Brooklyn Rapid Transit Co. It was estimated that the City's expense would be $100,500,000 and the company's $65,000,000.

The new lines are leased to the company for a period of 49 years from Jan. 1, 1917, and operated by the lessee in connection with the existing roads of the New York Consolidated Railroad Co., as one system. Under the terms of the lease the annual net revenue remaining after operating expenses, taxes and provision for depreciation is to be applied as follows:

(1) To the lessee $3,500,000 as representing the net earnings of the existing railroads which are to form part of the new rapid transit system. Out of this reservation the lessee is to pay interest charges on capital investment prior to March 19, 1913, in the existing railroads.

(2) To the lessee 6% on its new investment in construction and equipment prior to the beginning of permanent operation, and thereafter interest and 1% sinking fund.

(3) To the city interest and 1% sinking fund on its investment in cost of construction.

Any surplus remaining, after making provision for a moderate contingent reserve fund is to be divided equally between the lessee and the city.

The New York Consolidated Railroad Co., is a consolidation of the Brooklyn Union Elevated, the Canarsie Railroad and the Sea Beach Railway Co., these being the lines which form part of the new rapid transit system, which will charge a single fare.

Company Paid First

It will be noted that the company is entitled to 6% on its investment in the new lines before the City gets interest on its investment. This adds greatly to the safety of the Brooklyn Rapid Transit 7% notes which represent capital invested in the new lines.

Experts on New York traffic conditions are of the opinion that this new rapid transit system should prove in a very short time to be a big money maker. It takes Brooklyn traffic right into the heart of Manhattan invading the field that has heretofore belonged exclusively to the Interborough Rapid

Transit Co. The Broadway subway has already been opened from Rector St. to Times Square, but until its vari-

TABLE II

BROOKLYN RAPID TRANSIT

Price Range of Stock

	High	Low		High	Low
1899	137	61	1909	82⅞	67
1900	88⅞	47⅛	1910	82⅜	68½
1901	88⅞	55⅞	1911	84⅝	72
1902	72⅜	54¾	1912	94½	76¾
1903	71⅛	29½	1913	92¾	83¾
1904	70½	38	1914	94¼	79
1905	91⅝	56⅞	1915	93	83¼
1906	94⅛	71	1916	88⅞	81
1907	83⅝	26¾	1917	82	36
1908	69¾	37¼	*1918	48¼	36

*Up to November 1.

ous connections are completed the traffic is not likely to be heavy and is no measure of the line's possibilities.

The New 7% Notes

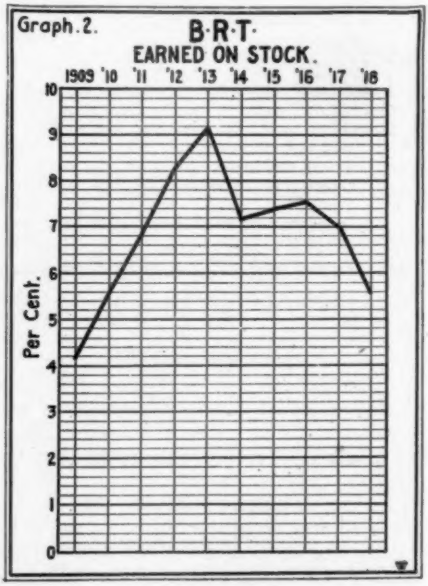
On July 1, 1918, $57,735,000 5% notes of the Brooklyn Rapid Transit Co. fell due and were refunded by the issuance to note holders of new 3 year 7% notes to the extent of 70% of the maturing notes and 30% cash. Over 94% of the notes assented to the plan so that it was declared operative. The new 7% notes are secured by $57,735,000 New York Municipal Railway Corp. first 5s of 1966 and $39,000,000 Brooklyn Rapid Transit new consolidated and refunding ten year 6s.

Under the terms of the indenture securing the notes, until they are paid off, no dividends will be paid on the stock of the company in cash or in securities or scrip, unless such securities or scrip shall by its terms rank subsequent to the rights of the noteholders against any of the assets of the company.

Position of Stock

At present prices of around 41 Brooklyn Rapid Transit stock appears to have good possibilities for the long pull. As dividends can not be paid in the immediate future because of the provisions of the new 7% notes it would seem that the investor who purchases now will have to have a good deal of patience waiting for his dividend reward. The contract made by the company with the city is a favorable one, however, and when all the new lines are completed and their traffic possibilities developed, earnings should be sufficient to enable the company to resume dividends on the stock.

Of course stockholders are not absolutely shut out from dividends for three years, as the notes can be redeemed at any time, at a premium of ½ for each 6 months which the notes may still have to run. Should earnings and the bond market improve, therefore, it is quite possible that this obstacle to dividends may be removed before July 1, 1921.



The 7% notes appear to be an attractive purchase at present prices of around 96. The fact that no dividends can be paid on the stock until these notes are retired is a strong point in their favor. The company has never failed to earn a substantial surplus over fixed charges.

American Gas and Electric

An Interesting Record of Dividends Maintained

By WALTER McNAUGHTON

PUBLIC utility stockholders and bondholders are visibly encouraged over the turn in events directly affecting the credit position and marketability of their holdings. Through cooperative efforts on the part of bankers, there is practically in shape now a comprehensive plan for providing the aid that these corporations have been so sorely in need of. Every utility company in the country which can make a legitimate demand for financial assistance, stands a better than fair chance of getting it. The medium for this aid is the Essential Industries Finance Corporation which has been designed to take up the work which the War Finance Corporation has found it unwise to assume.

There are outstanding at the present time some seven and a half billions of public utility company stocks and bonds. To be precise, that is the par value of the stocks and bonds issued to date. Their actual market value at this time is something considerably less. Just how big the shrinkage in market valuation is has never been determined but it is safe to assume that considered as a group it is larger than in any other single group of stocks identified with an essential industry. Of these seven and a half billions, about six billions have been issued through the medium of holding companies. The latter have played an exceedingly important part in the public utility industry. In fact, only one thing need be considered to obtain an offhand indication of this—the proportion of securities issued by those companies to the aggregate total issues of all companies in the field of public service.

One of the First Eight

One of the first eight holding companies, in point of capitalization and spread of activities, is the American Gas & Electric Company. Its subsidiary companies operate in 115 communities located in six states and altogether serve a population of over 925,000. All of these properties are at the present time in excellent operating condition. Several of them in fact are to be rated as entirely new and among the most modern and efficient generating plants to be found anywhere.

The trend of earnings of this company as shown in the accompanying graph has been similar to that of other public utilities. The earnings as shown in this graph, however, are not the earnings of the holding company proper, for no cognizance is here taken

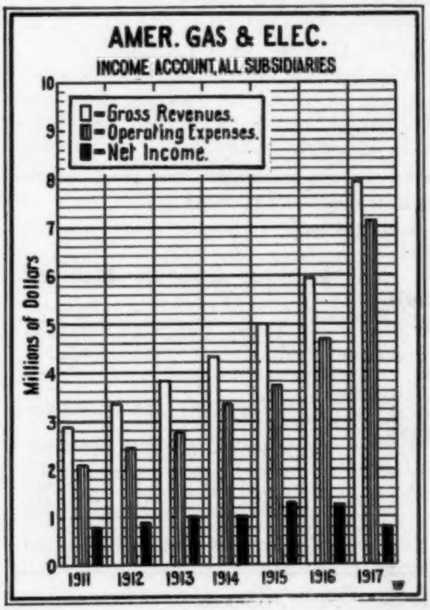
TABLE I—AMERICAN GAS & ELECTRIC CO.

Combined Statement of Earnings

Twelve Months Ended February 28,	1916	1917	1918
Gross earnings of all subsidiary companies	$5,175,182	$6,226,538	$8,241,180
Balance of subsidiary companies' earnings, after all deductions, applicable to American Gas and Electric Company	1,339,889	1,168,338	775,294
Other income of American Gas and Electric Company	455,851	657,418	1,050,552
Total gross income applicable to American Gas and Electric Company	$1,795,740	$1,825,756	$1,825,846
Total expenses and interest charges of American Gas and Electric Company	696,590	698,987	965,101
Balance	$1,099,150	$1,126,769	$ 860,745
Annual dividend on preferred stock	236,490	353,955	353,955
Balance	$ 862,660	$ 772,814	$ 506,790

of the other income of the holding corporation. This was omitted purposely and with the sole object of setting forth in clear-cut fashion the relation of the ever-uptending cost of operation to the line of gross receipts and the declining volume of net.

The combined earnings of the American Gas & Electric Company make a somewhat different showing, gauged by the important figures of total gross and net income. The figures shown in the tabulation herewith are for the twelve months ended February last. A somewhat later statement, though not detailed, is available at this time, showing net income for the twelve months ended with April, 1918, $1,500,000 less charges of $582,000, or more than twice the amount of those charges.



There is in these figures of earnings nothing suggestive that the dividends on the preferred stock and common stocks are in any way endangered at the present time. A continuation of the adverse conditions obtaining in the utility field, higher prices for materials and supplies and labor on the one hand and no compensatory increases in rates for service on the other hand, conceivably will alter matters to the point of making necessary a reduction in the rate currently paid on the common stock. But as against such an eventuality, there is the prospect of an early ending of the war, bringing with it, not an immediate correction of all or even most of the evils that utility companies have had to contend with, but a gradual lightening of the load of adversities brought by the war.

An Attractive Dividend Display

American Gas & Electric has had an uninterrupted record of payments of dividends on its preferred stock and also a satisfactory one with respect to the junior issue. There is outstanding $5,899,250 of preferred stock on which dividends at the rate of 6% have been regularly paid since the company started operations. On the common stock, $4,182,800 outstanding, dividends were begun in 1910 at the rate of 1½% quarterly. Subsequently at various intervals this rate was increased and from January 1, 1916, the rate has been 2½% quarterly with extra dividends of 2% semi-annually. As a matter of fact, these extras, which are payable in common stock, have been paid regularly each half year to holders since July 1, 1914. It should be noted that the par value of both classes of stock is $50 a share.

The funded debt of the company is not inordinately large as is the case with some holding companies. Its total is a little over $14,000,000 and consists of the following items:

Collateral Trust 5s, due 2007....	**$6,282,000**
6% Gold Debentures, due 2014...	**3,500,000**
6% Secured Notes (1920-21)....	**3,000,000**
Three-year conv. notes, 6s, (1921)	**1,430,000**

In another tabulation herewith, is shown the position of the company with regard to working capital and cash, the figures having been drawn from the general balance sheet as of December 31, in each of the years indicated. The large expansion in the amount of cash shown for 1918, is as of March 31 in that year, and reflects the proceeds of the notes sold in January, and shown in the table of funded debt.

These notes, amounting to $3,000,000 were offered on a 7½% yield basis, a figure which fully reflects the condition of the capital market at the time the offering came out. The issue was successfully disposed of by the bankers who in March of that year made and successfully sold another offer of notes amounting to $1,430,000 on a slightly higher yield basis.

The Road Toward Peace

Public utility stocks are essentially peace stocks. The reestablishment of peace will be the solvent of many, if not all of the perplexing problems with which utility operations have been beset in this country.

The outlook for public utility companies, during the transition period, involves far fewer problems than that of many industrial companies. The present strain of service will be lessened somewhat in many cases, costs will climb down slowly to nearer normal levels, labor will become less and less grasping in its demands as it finds its dollar commanding more of food and clothing, and while other companies are struggling hard to get into shape for the demands and competitions of peace times, public utilities will be able to make the readjustment process a comparatively easy one.

The securities of the American Gas & Electric Company, backed as they virtually are by the General Electric Company, are to be rated with the good investments offering in the public utility field. The collateral trust 5s, for instance, which were issued in payment of the properties of the Electric Company of America to the extent of $6,282,000, are a direct obligation of the company and secured by deposit of the bonds and stocks of the controlled companies. The interest on these bonds has been earned consistently several times over each year since organization. And in the present prospects of the company there is nothing to cause apprehension that the margin of safety will be reduced to a point where the ability to pay interest would be called into question. The thought here is, that if the war continues, American Gas & Electric will be able to obtain for such of its subsidiaries as may need it, the financial assistance that is vouchsafed in the formation of the Essential Industries Finance Corporation; and, if the war comes to an early close, there will ride into prospect an early relief from the many pressing burdens that have been directly brought about by inordinately high costs of everything that enters into utility operations.

The preferred and common stocks of the American Gas & Electric are owned, in majority, by interests closely affiliated with the General Electric Company. These issues are not listed on any exchange and transactions in the stocks are therefore not recorded. An index of the high rating that is currently accorded the common stock is contained in the recent bid and asked quotation on this junior issue of 94 and 95, a price practically double its par value of $50 a share. A return to normal operating conditions conceivably would restore the price of the common stock to somewhere near its level of some two years ago when it was selling at approximately three times its par value.

TABLE II—AMERICAN GAS AND ELECTRIC
Net Working Capital and Cash

Year	Cash	All Cur. Assets	All Cur. Liab.	Net W'k'g Cap'l
1911	$ 205,585	$ 300,566	$ 633,911	$333,345‡
1912	138,995	225,556	704,911	479,355‡
1913	478,542	1,250,736	1,236,325	14,411
1914	368,136	553,824	128,524	425,300
1915	825,490	1,005,182	46,967	958,789‡
1917†	396,101	627,936	594,511	33,425
1918*	2,258,758	2,850,270	2,064,950	785,320

*As of March 31; †As of January 31; ‡Excess of current liabilities over current assets.

Public Utility Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell

BROOKLYN RAPID TRANSIT—Modification Denied—Public Service Commission has denied application of surface operating companies in this system for a modification or further postponement of order for new cars which have been a subject of controversy and at times in courts for many months. The counsel to commission, former judge William J. Ramson, was instructed to begin proceedings by mandamus penalties or otherwise to insure obedience of companies to the order. As finally adopted on Feb. 8, 1917, order requires purchase of 250 new cars, but owing to increasing cost and difficulty of obtaining cars, commission later on reached an agreement that company should expend $3,000,000, partly for surface cars and partly for subway cars, including trailers, with understanding that this would be all that would be required during war. The company agreed to that and withdrew its litigation but failed to keep agreement.

CITIES SERVICE — Big Earnings — Company's stock recently has been living up to its reputation as one of the most spectacular performers in the outside market. From the low prices of earlier in the year, the common shares moved up almost 100 points, and reached figures around 300. Earnings of the company have helped the rise in the stock, which was also influenced tremendously by the boom in oil shares. Cities Service, although technically listed as a public utility, is deriving a big part of its revenue from its oil properties. In the 12 months ended September 30, surplus revenue was equal to $63.42 a share on the common stock, against $59.29 for the preceding 12 months. Gross earnings of $21,973,480 increased $3,803,631, and the surplus for the common of $17,413,992 was $3,126,017 larger than for the year previous.

LOUISVILLE GAS & ELECTRIC—Action Postponed—Action on plea to manufacture artificial gas, to be mixed with natural supply in order to prevent a serious shortage in Louisville during coming winter, will not be taken for a time by T. B. Gregory, Chief of Oil Division of Federal Fuel Administration, before whom new briefs have been filed by both city of Louisville, which is opposing manufacture of artificial gas, and this company, setting forth its claims. An early decision has been promised.

NEW YORK RAILWAYS—Earnings and Outlook—In annual report for year ended June 30, 1918, President Shonts paints a dismal picture. In that period deficit, after paid interest charges, was $153,633. To quote Mr. Shonts:

"In other words, it lacked by this amount sufficient to pay the interest on its first real estate and refunding 4% bonds and paid no interest whatever on its $30,609,487 5% adjustment bonds. Neither did the stock, which, under the reorganization, was reduced from $52,000,000 to $17,500,000, receive anything. The company has no surplus to draw upon to make good these losses. In fact, it had an existing deficit on June 30, 1918, of $1,355,880.

"The result is inevitable. Reserves have been depleted and available funds from all other sources are being used up in an endeavor to maintain the service until an increased fare can be had. Unless this is speedily forthcoming, a receivership cannot be avoided, with its attendant losses and probable disruption of service, as under a receivership a large part of the service now rendered by the company at a loss would be discontinued."

The remedy lies in increased fares without doubt, but the Public Service Commission has evidenced no haste in acting upon the petition for larger unit of revenue. According to Mr. Shonts, Ford, Bacon & Davis made an independent valuation of the property and found reproduction cost would be $70,000,000. Total funded debt is $58,523,027. The general situation confronting the traction lines of Greater New York deserves closer attention than it has been receiving.

PEOPLES GAS LIGHT & COKE—Helped by Court Decision—Illinois Supreme Court, in holding that the act of 1905 granting the city of Chicago the right to establish gas rates by ordinance is unconstitutional, has nullified the collection of the $11,000,000 rebate claims against the company. Litigation on this question has been in the courts since 1911. The decision is not alone important in the killing of these claims, but it may have an influence upon the attempt of the city of Chicago to have revoked the decision last summer of the Illinois Utility Commission allowing the company to increase its gas rates. The city has claimed that the commission has no right to fix rates, but as the Supreme Court has held that the fixation of rates by city ordinance is unconstitutional, it would seem as if the city's contention is weakened. The rate increase allowed by the State Commission is expected to bring about $4,500,000 additional revenue annually to the company. Peoples Gas stock has been steady recently, and it is regarded in some quarters as an attractive long pull peace stock, which has seen the worst, and should improve.

MINING AND OIL

Are the Coppers War or Peace Stocks?

War Time Earnings—No Inflation in Prices of Stocks—Post-War Prospects—Opinion of Big Copper Seller

By BENJ. R. STEELE

THE query which is the caption of this article is but the corollary of the all-important query, "What will copper do after the War?"

What copper will do after the war is of course chiefly dependent upon the great factor of—Demand. If the present demand continues it means that the copper companies will be able to maintain the present price of metal—or better, and should be able to show the present rate of earnings—or better.

On the other hand if the peace demand falls far short of the war demand, as some maintain that it will, then it logically follows that the price of copper must decline and earnings with it. In short there will be a period of readjustment; excess production will be eliminated, costs will be pared down to a reasonable basis; the weak will be shaken out and the strong will survive.

Opinion of Prominent Copper Seller

When THE MAGAZINE OF WALL STREET's representative asked one of the largest sellers of copper in the world what would be the outcome after the war the latter frankly replied, "I don't know." Perhaps he had in mind certain opinions advanced by leading interests anent the copper situation when the war broke out, but having confessed his inability to qualify as a prophet, he expressed himself as follows:

"In my opinion there is a tremendous suppressed or latent demand for copper which will make its appearance with peace. Europe is bare of the metal and there are a great number of enterprises requiring large amounts of copper which have been held up in this country because of the Government demand for the metal. The whole future of copper hangs on the point whether the peace demand will make up for the war demand. In my estimation it will, for a considerable time at least, perhaps as long as two or three years. The great increase in copper production here has not come primarily from resumption of old properties or the starting up of new properties which could not make money on ordinary copper prices, but from the enlargement of the output of companies which were large producers in peace times. With the exception of the Chile Copper there has been no new large producer of the metal in this hemisphere since the war began and there are no prospects for any big, new producers."

This copper authority admitted that the present price of the metal must be considered as an abnormal one but said that under existing cost conditions it could not be regarded as unduly high.

"In making the present fixed price the Government drove a hard bargain with us," he remarked, "and there is not the 'velvet' that many persons believe. Many companies are making less money now than when prices were normal, if you figure on exhaustion of ore supplies and depreciation. It is of course almost impossible to say what the average cost per pound of copper now is, but I should estimate it at least 18c a lb. and perhaps higher. If the copper market were allowed free action we would be selling at prices at least as high as 35c a lb.

"It is of course inevitable that the price of copper will eventually work down to somewhere near former peace levels, but in my judgment it will require several years and the descent will be gradual and in proportion to the decline in materials, labor and the other factors

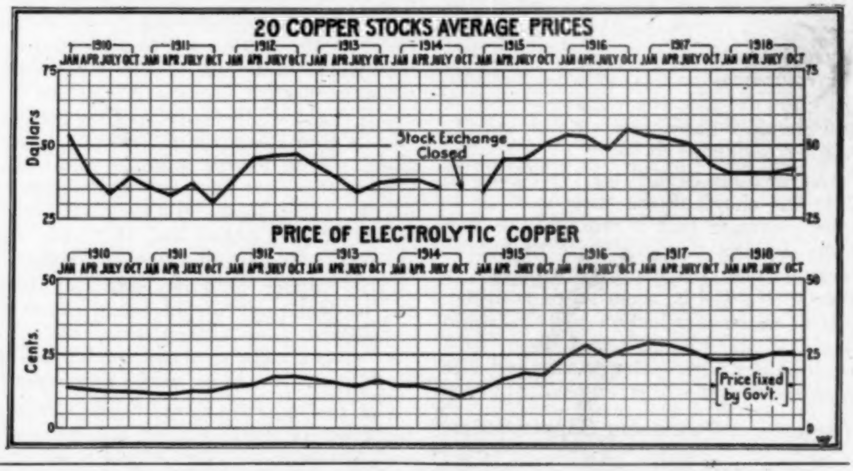
which go into the making up of cost sheets."

The above is the "reconstruction" theory as applied to copper and is perhaps the view-point one might expect that a seller of the metal would naturally take, but it is nevertheless worthy of careful consideration.

Stocks Versus Metal Prices

Examining the figures in detail which were used in making up the graph which accompanies this article we arrive at some interesting conclusions. When the Stock Exchange closed, July 30, 1914, the average price of the 20 copper stocks was at the index figure of 32.9. The highest price made by these copper averages since that time was reached in November of 1916 and was 62.2, i. e. an advance of 29.3 over the July 30, 1914, average and equal to an advance of 88% over that average. As last reported the average price in October stood at 42.4 an increase of but 9.5 or 28.8% over the July 30, 1914, price average.

Turning to the price of the metal we find it at 13.22c on July 30, 1914, and making a high record of 31.8c in December, 1916. This advance of 18.6c is equivalent to *an increase of* 140% over the July 30, 1914, price. Today the metal is 26c a lb. and fixed by the Government or just a little short of 100% increase over the July 30, 1914, level. In short while the metal is now *nearly* 100% *higher* than when the war broke the average of the copper stock is *less than* 30% *higher.*



It is not that copper stocks are quicker in discounting a peace decline in the metal but rather that they never have moved in proportion to the war-time advance in copper prices. Consequently it is obvious that if, contrary to expectations, there is a prolonged depression following the war the copper stocks ought to show up better marketwise than securities which have fully discounted their war earnings. On the other hand in the event of a post-war boom the coppers should be an excellent position to express the situation by market quotations.

Earnings of the Coppers

That the failure of the copper stocks to sell on a level proportionate to the advance in the metal was not due to the fact that the coppers were not making large profits is evident from even a cursory glance at copper earnings. The table which accompanies this article and which summarizes the earnings of the leading copper companies for the last three years, shows that these companies have earned substantially more than dividend requirements and have greatly strengthened their financial positions. All of the companies mentioned in the table yield above 10%

on the prices quoted and some of them make very handsome returns. While earnings for the current year will, without doubt, be less than for 1916 or 1917, practically all of the companies mentioned ought to be able to continue their present dividend rates without difficulty.

Even if the worst predictions come true in reference to post-war developments, it would appear that the worst that the investor might expect would be a 5% or a 6% return on his funds until the copper market eventually took a turn for the better. On the other hand if demand and prices remain at present levels the prospects will be for larger dividends and consequent appreciation in market prices. In compiling the tabulation all deductions, including depreciation, taxes, etc., were made.

In glancing over the balance sheets of the leading copper companies the reader is struck with their strong working capital and cash position as compared with the pre-war status. Miami and Ray Consolidated had about $2,000,000 in cash on hand on December 31 last, Chino $2,500,000 and Utah $11,500,000, while Anaconda showed the enormous total of cash and receivables of more than $27,000,000. A comparatively small part of the copper companies' earnings during the last three years have gone into plant extensions and consequently their overhead in bad times will not need to be cut down to the extent of the overheads of steel and industrial companies which have expanded in war times.

Conclusions

Admitting, then, as a prelude to our conclusion, that it is not humanly possible to predict with any certainty the course of the metal's price after the war, we may at least be sure that the copper industry is at present on a very sound basis and has excellent prospects of remaining on such a basis. Copper stocks are not inflated and should hold well in a long, declining market. In the opinion of the writer the coppers are entitled to rank as peace stocks and the investor who buys at present levels for the long pull will find the better class of coppers exceedingly satisfactory investments.

EARNINGS OF LEADING COPPER COMPANIES

	Total Net Earnings (1915-1917 inc.)	Three Yrs. Divs.	Total to Surplus	Pres. Div. Rate	Recent Price	Yield
Anaconda	$43.70	$17.50	$26.20	$8	68	11.7
Ahmeek	39.95	*26.50	13.45	8	80	10.0
Allouez	32.60	20.00	12.60	6	48	12.5
Cal. & Arizona	36.50	23.25	13.25	8	69	11.5
Copper Range	37.40	23.00	14.40	6	47	12.6
Chino	33.65	21.15	12.50	4	40	10.0
Granby	63.60	19.00	44.60	10	82	12.1
Greene-Cananea	23.50	16.00	7.50	8	53	15.0
Inspiration	28.50	13.50	15.00	8	54	14.8
Kennecott	14.00	**11.20	2.80	4	38	10.5
Miami	19.65	16.75	2.90	4	28	14.2
Nevada Consol.	15.40	9.40	6.00	3	20	15.0
Quincy	55.60	42.00	13.60	8	69	11.5
Ray Consol.	16.70	8.20	8.50	3	25	12.0
Utah	53.10	30.75	22.35	10	87	11.4

*In addition paid $13 per share on original capital of 50,000 shares in first half of 1915 and $2.50 per share on expanded capital of 200,000 shares in remainder of year.

**Initial dividend in March, 1916.

.Mining Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell

ANACONDA COPPER—Furnace Blown In—Second blast furnace at ferro-manganese plant at Great Falls, Mont., has been blown in. The first furnace started operations last week and has already shipped 100 tons of manganese to Pittsburgh. The remaining three furnaces are expected to be blown in about first of month.

BUTTE COPPER—Status—In all probability will declare another dividend of 50 cents a share before close of year. An initial dividend of 50 cents a share was declared on July 2 last. Operations at property are highly satisfactory. Earnings for 1918 are expected to exceed those reported in 1917. Returns for last half of this year should double those of first six months. The company worked on manganese ore for only three months in first half. Shipments were made in December and January, but real work of producing and shipping this ore did not start until March last. Manganese shipments have been averaging about 300 tons a day for several months past. It is expected that this rate can be kept up for some time to come, and probably increased later in year. The company is working on high-grade ore now. This runs all way from 35% to 38% manganese and from 7% to 9% silica. When the opportunity offers company can work on low-grade ore.

BUTTE & SUPERIOR—Suit Hearing Vacated—Contract—Hearing of supplemental suit of Elm Orlu against this company, involving ownership to heart of Rainbow vein in Black Rock mine which has been set for Oct. 21 in Federal Court in Butte, has been vacated, pending a decision by United States Supreme Court on appeal from a decision of Circuit Court of Appeals at San Francisco in original suit which affirmed all points in favor of Elm Orlu. Has made new smelting arrangements for duration of war and contracts formerly held for treatment of concentrates have been suspended. Smelters claimed advancing costs made it compulsory to ask higher compensation and mining company, appreciating necessity, has agreed to temporary higher smelting rates. Under higher operating costs, heavier smelting tolls and lower spelter prices, company's revenues have been cut down where they show a very narrow margin of profit.

CALUMET & HECLA — Output — This company, including subsidiaries, reports an output for September, 1918, of 10,314,168 pounds of copper. In September last year total output was 11,556,438 pounds.

CALUMET & JEROME—New Claims—Has acquired three new claims just southwest of its present holdings, with two United Verde claims intervening. It is believed, however, that Calumet & Jerome will be permitted to explore and operate the new properties without trouble.

CANADA COPPER—Coming Producer—Should be one of new copper producers of coming year. There will have been spent about $5,000,000 upon development work, mill construction and extending to site of plant both railway and power line facilities. More than 10,000,000 tons of ore have been developed, the average contents being about 1.7% copper. Further development, according to indications, will probably double tonnage. The mill now under construction was planned to handle 3,000 tons of ore daily. With an average extraction of 85% the property should quickly develop into an important producer.

CONSOLIDATED COPPER MINES—Developments—Produced 1,196,884 pounds of copper in September. Recent developments on 1,200 level are said to be very encouraging. On this level ore zone is being systematically explored by three cross-cuts. The most westerly of these recently cut an ore chute 6 feet in width, averaging 9% copper. Another ore body has just been cut in the face of this cross-cut showing 2 feet of 9% copper. Delay in securing necessary repair parts has prevented putting into operation 1,200 gallon pumping engine at 1,200 level station. These repair parts are now on ground and pump will be in operation in a few days. As soon as it is put into operation shaft will be unwatered to 400 level and work on 1,300 foot level advanced more rapidly.

COPPER RANGE—Status—According to present indications, it is expected production of mines this year will approximate 40,000,000 pounds of copper. This includes entire output of Champion in which Copper Range is a 50% owner, and is some 5,000,000 pounds, or 11% less than the 1917 total. It cost the company 12 cents per pound to produce its metal last year after all charges. Its cost this year, however, will show considerable increase; it would not be surprising if it approximated 16 cents per pound after taxes, depreciation and like. This last wage increase alone added one cent to per pound cost and this is second advance made to labor since Spring. Notwithstanding mounting operating costs it is believed company under present conditions can continue its dividend of $1.50 per share quarterly. Net

quick assets that on December 31 last stood at $6,218,000 have since been augmented, but even on the basis as last reported, they are equivalent to nearly $16 a share or about 30% of the present market price for the company's stock.

DOME MINES—Operations—When operating conditions improve a little, company will resume operations on a scale greater than in pre-war days. Has been opening up ore bodies at lower levels, at the 600 and 1,250-foot levels, and now 800-foot level is going to be opened up. This should result in the placing in sight of large volumes of higher grade ore than has been available at upper levels. The mill-heads should run richer when the mill starts operations again.

FEDERAL MINING — Production — Is producing ore from its Morning mine, in Coeur d'Alenes at the rate of 1,000 tons daily. This is comparable with 300 tons a day during part of August. The rate of production was in neighborhood of 1,600 tons two years ago. The improvement of recent months is due to an increase in number of men and employment of contract system. Earnings for September were $154,435 after all deductions and depreciations. This compares with $87,243 in August, $98,255 in July, and $92,179 in June.

McINTYRE-PORCUPINE — Dividend Status—Third 5% dividend for calendar year and sixth since this company started to pay dividends last year has been declared by directors. It will be paid on November 30 to shareholders of November 15. Meanwhile annual report is expected daily. It is believed that it will show no great change in ore reserves, though new ore put in sight during the year is computed in millions of dollars. The mill is producing at the rate of $150,000 a month and profits are running close to $80,000, against dividend requirements of $60,000. Additions to mill are contemplated as soon as war is over.

NORTH BUTTE MINING—Report—In quarter ended Sept. 30, 1918, mined and shipped 126,765 wet tons of ore and there were treated 123,653 dry tons of ore of which 95,980 dry tons, or 77.6% were second class, and 27,673 dry tons, or 22.4% were third class. This produced 5,508,313 tons of copper, 231,861 ozs. of silver and 366 ozs. of gold. In the June quarter the company turned out 5,312,761 lbs. of copper, 240,877 ozs. of silver and 356 ozs. of gold. Development work during quarter consisted of 1,569 ft. of cross cuts, 2,171 ft. of drifts, 1,684 ft. of raises and 40 ft. in Speculative shaft, a total of 5,464 ft. The report states that both Speculator and Granite Mountain mines continued in full operation during quarter.

RAY HERCULES—Production Figures—Copper output now reported at more than 500,000 pounds monthly. The company has been regarded as one of the promising copper prospects of the Arizona districts, and its arrival at the definite production stage has been awaited with more than usual interest. At present company's mill is equal to 1,500 tons of ore a day, and a 3,000-ton capacity is expected.

SHANNON COPPER — Output — Produced 772,000 pounds of copper last month, and to October 1 this year its output was 7,250,000.

N. L. Amster, president of company, has just returned from an inspection of the mines. He says: "I am satisfied with conditions at Shannon as I found them. Of course, ore values at the Metcalf mine are steadily declining and mining there has practically ceased. This, however, is a fact that has been apparent to the management for the past ten years. Metcalf is in a position where it can still produce copper, but the semi-oxidized ores being of such low grade it is impossible, with the present high costs, to continue mining at a profit there. Shannon's other two producing properties, however, are showing very well."

SHATTUCK-ARIZONA — Production—September production was: Copper, 686,844 lbs.; lead, 325,496 lbs.; silver, 8,621 oz., and gold, 105.09 oz. Production for nine months in 1918 was: Copper, 7,247,903 lbs.; lead, 969,961 lbs.; silver, 109,081 oz., and gold, 924.60 oz.

UNITED EASTERN — Report — Net earnings for first nine months of 1918 were $1,115,191, nearly double dividend requirements. Estimated surplus is about $750,000. The company has paid a monthly dividend of five cents a share since July, 1917.

Oil Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell

ATLANTIC REFINING—Mexican Oil Developments—Plans are said to include the construction of a new refinery at Brunswick, Georgia, to handle crude from the Mexican fields. This new refinery will enable the company to build up advantageously its fuel oil business in the south. Atlantic Refining at present operates refineries at Philadelphia, Pittsburgh and Franklin, Penn., with a daily capacity of 50,000 barrels of oil. It has a Mexican subsidiary to take care of its Mexican interests and has a contract with the Port Lobos Petroleum Co. which is understood to call for 3,000,000 barrels of oil. Incidentally, Atlantic Refining's reported interest in Port Lobos is said to account for much of the recent strength in that company's stock.

HOUSTON OIL—Output Larger—With a new well that has been brought in output has been increased to between 18,000 and 20,000 bbls. per day. The latest well No. 7 has proven itself with an 8,000-bbl. a day flow and wells Nos. 3, 4 and 6, it is expected will shortly be producing at least 10,000 bbls. a day. According to one familiar with situation, it is proposed to put pumps in three latter wells and this should increase their production materially. All four of wells now producing are bringing oil from the first sand levels which are at only a moderate depth. It is predicted that lower levels of sand will be more protected than higher levels now producing.

MEXICAN PETROLEUM—Earnings—In first six months of 1918, earnings were equal to $10.85 a share on the $39,342,000 common stock, compared with $10.23 a share for the whole year 1917. Ten of the Pan-American & Transports' fleet of sixteen tankers were in service, the remainder having been requisitioned by United States and British Governments. Enthusiasts on the company's status claim that only distributing facilities are needed to increase earnings to a great degree, and that the extent of the development of a marketing system will determine eventual revenue. The sensational action of the common stock indicates "dealing in futures" with a vengeance. Current earnings are not markedly unusual.

PAN-AMERICAN PETROLEUM — Report—Statement for six months ended June 30, 1918, shows total profit after charges and war taxes of $3,396,094, equivalent after deduction of preferred dividends to $4.96 a share on $30,494,750 common stock of $50 par value for six months period.

PRAIRIE PIPE LINE — Ordinance Drawn—Application for a grant on Pelican Island, under a fifty-year lease, was presented to board of city commissioners. By terms of an ordinance drawn by City Attorney Mart H. Royston, and which was read at meeting by Mayor I. H. Kempner, company will be required to erect on proposed site on or before Jan. 1, 1920, pipe line terminal facilities to have an assessed value of not less than $40,000, and to pay to city of Galveston a yearly rental of $3,600 for first twelve years, $4,000 each year for second twelve years, $4,500 yearly for third period of thirteen years, and $5,000 yearly for fourth period of thirteen years. Yearly taxes for first period of lease, according to Mr. Royston, will amount to $720, which, added to yearly rental of $3,600, will provide a yearly income to the city of $4,200. This amount, according to Mr. Royston, is minimum figure. The ordinance grants Prairie Pipe Line Co. right to cancel lease after Jan. 1, 1924, and to remove its property.

TEXAS CO.—New Stock Issue—Those who have said that the company had completed its development plans must have been surprised by the offer of $13,875,000 additional stock to shareholders. Proceeds from the sale will be used to increase pipe line facilities from the Caddo field to the Port Arthur refinery. Other improvements will be the enlargement of various refineries and terminals, the purchase of equipment for crude oil stations at Atlantic ports, and additional purchases of crude oil will be financed. The North Central Texas field is also expected to be more fully developed. This is known as the Ranger pool and in this field there are said to be stored 1,000,000 barrels of oil. The prospects in that territory look highly encouraging to the Texas Co. management.

VACUUM OIL—May Increase Capital—Arrangements for increasing capital stock from $15,000,000 to $50,000,000 are believed to await only return of peace conditions, increase to be followed by a distribution to stockholders. The company's surplus now is understood to be about $50,000,000, there having been a gain of $10,000,000 this year. More than 75% of business is export trade. Under difficulties of maintaining foreign business in war conditions, the company last year earned $62.16 a share, after payment of $2,617,000 in war taxes, compared with $61.47 a share in preceding year. With a return to peace conditions, Vacuum's business, which is conducted in practically every country in world, obviously will be benefitted.

UNLISTED SECURITIES

The Searchlight

The Mystery of Tyopa—Exclusive Misinformation—Mexican Eagle Oil Illustrates Modesty—Uncle Sam Oil Literature The Reverse

By "QUIZZ"

THE sub-titles to this article might convey the impression that the writer is wandering through Oil Land at random this week, but a glance through the financial columns of the dailies during the past month will reveal that the distinguishing feature of an erratic peace market is the feverish attitude of the public towards the oil stocks. Closing quotations of "+30" and "—20" against Mexican Petroleum, indicating daily advances or declines, with similar wide movements scored against Texas Co., Pan American, Cities Service, and more recently Southern Pacific (now graduating into the semi-oil group) are calculated to infect the beholder with the reckless spirit of these exciting times.

It is in movements like these that speculation becomes rampant, and while some money is made by a few who are shrewd enough to purchase a good stock, hold it, disregard all temporary fluctuations *and sell out at a reasonable profit,* the majority are not content to adopt ordinary business methods when "the move is on" and spectacular stocks can score a fifty point profit (or less) in a single day.

1. Any promoter with a promise of "easy money."
2. New securities of every character—particularly "cheap" ones.
3. Inherent greed: which impels the biting off of chunks of high-priced stocks "at the top."
4. Inspired publicity on any stocks.
5. Losing one's head because "Jones made a clean-up in Crazy Petroleum." Jones isn't through with Wall Street yet.
6. Buying any stocks on slender margin.

An Example of Modern Methods

These preliminary observations bring us to the publicity methods used to introduce Tyopa Oil to trading on the N. Y. Curb this week.

Preceded by tantalizing publicity designed to arouse curiosity, certain financitl publications gave advance particulars which were so lacking in precise detail that the writer would describe as "exclusive misinformation." We gathered that Tyopa is a promising "Mexican" prospect (anything "Mexican" goes these days), of indefinite capitalization, sponsorship and par value. It was stated that "Stock Exchange houses" are interested, and more guardedly suggested that the market operations resemble the handling of Royal Dutch Petroleum. To our mind the "handling of Royal Dutch Petroleum" was not a recommendation, as few, if any, outsiders made money in the latter.

However, we decided to find out something about Tyopa Oil. We found a lone specialist on the Curb, but no special evidence that "Stock Exchange houses" were interested. No sale took place for a full hour. There were some desultory inquiries by "Curb Wireless" flashed from the windows overlooking the market down to our lone specialist friend beneath: their translation, "4 bid 6 asked—nothing doing." Tyopa might be a Royal Dutch in embryo, but it did not look that way.

By a process of analytical dentistry the writer extracted a few scant particulars which we give for what they are worth. Properties: lower California and Mexico, locations unreported. Sponsorship: not revealed. Capitalization: $1,500,000,

par value of shares $5. Shares outstanding: information not available. Production: none yet reported. Prospects: unknown.

Mexican Eagle's Policy of Candor

In contrast with the Mystery of Tyopa, let us see what happens where we have occasion to examine a mammoth oil company about which there is no mystery, little publicity intended to create a buying power, but overwhelming details of every angle of its business. No one has been urged to buy Mexican Eagle Oil, although the company is sponsored by one of the greatest living oil magnates—Lord Cowdray—although it is the second largest single producer of crude oil in Mexico with a record of nearly 17,000,000 barrels in 1917; and although its shares are recognized as the leading oil stocks on the London and Paris Exchanges.

Enjoying a quiet "over-the-counter" investment market in New York, selling around 15-16, no one identified with the company or its management has been particularly interested in creating a market. Its shares sell at an investment level on merit, and are, therefore, too good to induce inside interests to make them attractive by clever publicity methods.

The production of this company's El Aquila operating subsidiary only fell slightly short of Mexican Petroleum's Huastica Petroleum output of over 17,000,000 barrels last year. Last June, Mexican Eagle brought in a well flowing 50,000 barrels a day. While actual production of this company is now around 80,000 barrels daily, its potential production is estimated at 133,000 barrels daily in the not distant future. This compares with about 305,000 barrels estimated for Mexican Petroleum.

Since a comparison of the Tyopa Company was made with Royal Dutch, it will be interesting to turn to the tables of Mexican oil production appearing in the "Southern Pacific" article elsewhere. The production figures of La Corona (Royal Dutch) speak for themselves. It is a far cry from Tyopa to Royal Dutch, but it will be seen on comparison that Mexican Eagle is nearer the mark.

While it is impossible to do Mexican Eagle anything like the justice it deserves in an article of this character, it is worth while mentioning that this company's profits on trading have grown by leaps and bounds during the last seven years, in spite of the turbulent conditions of unfortunate Mexico in that period. While the profits for 1911 were less than $1,000,000, these figures have been mounting in dramatic fashion since that time as follows:

1911	$875,171	1915	$12,959,020
1912	4,264,942	1916	18,082,412
1913	8,508,291	1917	20,521,648
1914	11,189,084		

More illuminating than these figures are those giving details of "loans from bankers." They tell the story:

1913	$13,351,850	1916	$4,408,260
1914	5,764,772	1917	*
1915	6,934,640		

*Not available.

This is a striking example of *progress*. While trading profits have been multiplied by five, loans are now about a third of what they formerly stood at. Meantime the company has paid its pfd. dividend of 8% since 1911 without a break, while the "ordinary" dividend has been doubled from an initial payment of 4% to the current rate of 8%—and there is more to come.

We do not quote Mexican Eagle's market policies in order to advance the sale of its shares. We do not even recommend them, as the stock is inactive—in fact "dead." The facts are given to illustrate that a "good wine needs no bush."

Bonus Offers

Stepping down again from the sublime to the ridiculous, we have before us a notice of the Uncle Sam and Trapshooter-Triangle Oil Companies asking stockholders to accept a special offer of 10 shares at a reduced price of $4, 100 shares for $40 or 1,000 shares for $400. The multiplication table is freely used to avoid error, and stockholders are informed that the funds are required to "go after" some new gushers. We hope Uncle Sam will find them, after fourteen years of effort.

One would, however, like to see a financial statement, a record of actual production, number of wells drilled and producing, etc. The company has been

in existence for many years, and while its literature is full of hope for the future, and vituperation for "the big fellows," we believe a little space might well be devoted in its literature to cold facts. Statements like *"the big drills go deeper and a big gusher is expected on the North Turner lease that may advance the stock to several dollars a share,"* or this one, *"Having been on the firing-line for years, I can see what the big grabbers are up to. Some of them are scheming to bring about an oil shortage at the expense of America, and every true patriot should help drive five thousand drills into every believed to be big gusher or gusher pool in America,"* may be true, but they lead the intended investor nowhere.

The shareholders of Uncle Sam Oil have been paying for the drills for about fourteen years, and believe they would welcome a little oil, or a few gushers, if they came their way. What they are entitled to, and should insist upon, are—the facts.

An Idea Well Applied

In the newly formed Carbo-Hydrogen Company of America, behind which company interests identified with the promotion of Globe Oil (analyzed in "The Searchlight," September 14) are prominet, it is refreshing to see how fully and unreservedly all details are given, including earnings monthly and yearly, details of production, customers using the process, etc. The trouble with the majority of good ideas is that they are either misapplied, or unconservative methods rule, as we recall in the case of Burrite Coal, Smith Truck and others. Smith Truck, often adversely criticized by THE MAGAZINE OF WALL STREET, owned a remarkable "idea," but the company went into a receiver's hands recently. In this case, a good idea was nullified by wrong application, and management policies which were too hopeful rather than too careful.

Apparently the Carbo-Hydrogen Company has been testing itself out and the detailed statement of earnings for 1915, 1916, 1917 and for the half year of 1918 show that a good idea, well applied, can be a money-maker.

The company is now offering its 7% cumulative stock, par value $5, at a discount of 2½%, or $4.88 a share. In addition a 25 per cent bonus in common stock is given with each subscription to the preferred. The yield on the preferred is a trifle over 7% as a straight income proposition, while the common stock possesses possibilities. The dividend on the preferred is being earned twice, while it is estimated that net earnings should rise materially in the forthcoming year, and show some return on the common stock. Examining the figures, we find this estimate entirely probable.

The company is well sponsored in the person of people who are identified with the Penn-Mex. Fuel Co., Tropical Oil Co. and other prominent successful enterprises. While this is not a guaranty of success for the Carbo-Hydrogen Company, it is *one* favorable factor to have successful responsible people behind a new concern. The company does business with the Cambria Steel, the Bethlehem Steel, American Steel Foundries and the Submarine Boat Companies. The U. S. Steel Yards at Newark, N. J., have recently introduced the company's process into the Hog Island Ship Yards. A good market for products, and such proof that responsible firms recognize the value of the product is *another* hopeful factor. All in all, Carbo-Hydrogen is a more promising proposition than Globe Oil, and we are glad of the opportunity of saying something in its favor.

The selling methods in the case of Carbo-Hydrogen further illustrate what is desirable, in placing before intending investors such material facts covering (a) finances, (b) past and present income, (c) concise statement of business done, (d) names of customers, (e) details of corporate structure, (f) a *conservative* estimate of probable and possible future prospects, (g) sponsorship.

In conclusion, we would explain that our object is neither to condemn nor praise new or old securities. We wish to enlighten our readers and subscribers; nay, more than that, to enable them to enlighten themselves and use the illustrations given in "The Searchlight" in their future dealings with those who wish to sell them Unlisted Securities.

Discussion of actual securities is by way of illustration and secondary to our purpose of giving Service.

Unlisted Securities Guide

The Real Status of Active Curb Stocks—For Specvestors

2.—Industrials

About one hundred industrial issues are traded in on the New York Curb. Less than twenty-five are deserving of investment consideration. The majority are prospects, promotions, or enterprises of extremely uncertain value, and great care must be exercised in buying or holding them. We will attempt to classify all issues in their order of merit, those of highest speculative rating being placed in class "A," second rating in class "B," etc. There may be some necessity to change these ratings later according to delevopments, which will be done when and where necessary in this section. Current prices are a factor in determining the ratings—which are subject to change. Those who study these pages diligently will remain closest to the shore when the storm comes.

Name	Par	Capital-ization	Shares Outstg.	Divi-dends	How Paid	Recent Price	Sponsors	Rating, (based on current price)	Brief Opinions
Aetna Explosives ...	*	630,000 sh	628,414½ sh	..	..	7⅛	Receivers Holt-Odell	C	See Mag. of Wall St., Vol. 21, No. 12. Warbride, formerly in distress. Coming back.
Aetna Explosives pf..	$100	$5,500,000	$5,495,900	..	..	....		B	See Mag. of Wall St., Vol. 21, No. 12. Fair specvestment. Inactive. Good equities.
British-Am Tobacco .	£1	£10,000,000	£6,254,320	Irreg.	..	20	Jas. B. Duke Interests	A	Steady, conservative progress. Peace stock.
Burns Bros. Ice	$100	$3,750,000	$3,750,000	..	..	49	Burns Brothers	C	Too much manipulation.
Curtis Aeroplane	*	303,000 sh	217,540 sh	..	..	28	John N. Willys & Assoc.	A	Leading aeroplane manufacturer. Conservative, strong management.
Emerson Phonograph.	$5	$1,000,000	$974,065	..	..	2¾	Victor H. Emerson & Assoc.	C	Peace will help. Coming back.
Hupp Motor	$10	$6,500,000	$5,192,100	..	..	3⅞	Drake Bros. of Detroit	D	See Mag. of Wall St., Vol. 22, No. 11. 1915 recapitalization discounted much.
Lima Locomotive ...	$100	$7,550,000	$4,350,000	..	..	37	Rockefeller-Prosser Assoc.	A	See Mag. of Wall St., Vol. 22, No. 4. Apparently on bargain counter.
No. Am. Pulp & Paper	*	1,000,000 sh	999,760 sh	..	..	3	J. E. A. Dubuc	D	Reports too optimistic. Might "come through."
Republic Motor Truck	*	100,000 sh	100,000 sh	..	..	36	F. W. Ruggles, of Alma, Mich.	B	Growing; strong; conservative.
Smith Motor Truck..	$10	$12,000,000	$10,000,000	..	..	⅛	Dominated by creditors	E	Position for common stock hopeless. Was good idea but badly applied.
Submarine Boat	*	800,000 sh	764,810 sh	..	..	13½	H. R. Carse & Assoc.	D	Never adjusted to heavy recapitalization. Getting near true worth.
Triangle Film	$5	$8,000,000	$5,000,075	..	..	⅜	Aitken-Kessl-Baumann	F	See Mag. of Wall St., Vol. 21, No. 7. Films not an "outsider" investment.
United Motors	*	1,200,000 sh	1,101,640 sh	..	..	33½	Durant-DuPont Assoc.	B	Growing accessory. Might overcome early handicaps of capitalization and manipulation.
Wright-Martin com...	$25	$5,000,000	$4,166,675	..	..	5½	J. F. Alvord-Glen	B	See Mag. of Wall St., Vol. 22, No. 4. Peace-war group. Important in pioneer industry. Fascinating possibilities.
Wright-Martin pf ...	$100	$5,000,000	$5,000,000	..	..	60	L. Martin Assoc.	A	14% accumulated dividends. Maturing specvestment.

* No par.

(To be Continued)

Unlisted Security Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell

AETNA EXPLOSIVES—Annual Report—Receivers report that for the year ended July 31 last gross business aggregating to $46,295,046 and an operating profit of $6,828,100. After all charges there remained a net, before taxes and amortization, of $3,773,184 as compared to $1,063,153. Unfilled orders amounted to 101,889,146 pounds of explosives. Of this amount 83,892,220 pounds represented unfilled portions of contract orders taken after Aug. 1, 1917.

CURTISS AEROPLANE—War and Peace Status—Claimed for the company that the sudden ending of the war would cause no debacle in its affairs. Surplus is reported to have been built up from $1,000,000 at the beginning of the year to $5,000,000, and it has over $10,000,000 net quick assets, which means practically $20 a share for the 217,000 shares of common stock. The company is fully protected by the Government against loss on its new plant, and in any event will receive its book value of $5,000,000. With the disposal of the new plant, the remaining two plants will enable Curtiss to handle $25,000,000 business a year. In the meantime the company is going ahead with its plans to make its plants the biggest fighting plane proposition in the country.

FIRESTONE TIRE & RUBBER—Business Status—Financial world is fairly familiar with tremendous strides which rubber manufacturing industry in general and such companies as United States Rubber, Goodyear and Goodrich in particular, have made in recent years in expanding sales. But one manufacturer which is not so well known although it is a major industrial and one of the "big five" tire companies is Firestone Tire & Rubber Co. This company will do a business of approximately $75,000,000 for year to close with this month. This will represent an increase of $13,500,000 over previous year and will compare with sales of less than $20,000,000 during fiscal year which ended in 1914. The company's factory is now working approximately 65% on war work and when company completes its additions for manufacture of balloons it will be approximately 80 to 90% war work.

HUPP MOTOR—Car Production to Cease—In November will cease manufacture of passenger cars, having reached quota allowed by War Industries Board. In round numbers it will this year turn out 9,000 automobiles or approximately 25% less than the 12,000 of last year. Is rapidly nearing a 100% war work basis. At present it is busy on a contract for 500 ¾-ton trucks and on another for 2500 ambulance motors of standardized government pattern. These are initial orders and "repeats" are expected. In addition to truck and motor orders it is also turning out in large volume machine parts for other manufacturers, including "Class B trucks" as well as a considerable amount of tank material. For its fiscal year ended June 30, company earned a balance of $1.43 per share for its 519,210 shares, or over 40% on current market price. This it can hardly expect to duplicate this coming year, but it will have no difficulty in covering several times over dividend requirements on $1,500,000 preferred.

REPUBLIC MOTOR—Annual Report—June 30, 1918: Net sales $20,522,380, manufacturing cost, etc., $17,749,549, gross profit $2,772,831, other income $166,407, total income $2,939,238, expense and interest charges $1,454,155, net profits $1,485,083, preferred dividends $70,000, balance $1,415,083, previous surplus $1,304,081, total surplus $2,719,164, provision for war taxes $735,689, expense of common stock issue written off $115,415, profit and loss surplus $1,868,060.

SMITH MOTOR TRUCK—Receivership—This company went into hands of F. M. McKey, receiver, appointed by United States District Court, on Aug. 31, 1918. Since that time, business has been continued in operation under direction of court. The last dividend on preferred stock was paid July 15, 1917.

WRIGHT-MARTIN—Past, Present and Future—In thirteen months ended June 30 last, net profits were $540,678, against deficit of $1,205,198 for previous fiscal period. Since July, 1917, company received orders from U. S. Government for 7,500 Hispano-Suiza aeroplane motors, and for 5,000 of the new 300-horsepower motors. Including previous French orders, over 4,000 Hispano-Suiza motors have been produced. President Houston says that company's cash position has been strong at all times. When work on new plant at New Brunswick is finished, Wright-Martin will have plant investment of $5,500,000. President Houston added in his statement to stockholders in the annual report that management is now engaged in the formulation of plans for resumption of commercial business after the war. He intimated that manufacture of Simplex automobile will be resumed.

TOPICS FOR TRADERS

Trading on The Consolidated

Experiences of a Floor Trader—Differences Between "Big Board" and "Little Board"

By A FLOOR TRADER

WHEN I first came down into the "Street" I secured a position as telephone man on the New York Stock Exchange floor. My firm did a very nice business, and from that vantage point I learned a lot about floor trading, the methods of brokers, and other details of the business which I could not have gained elsewhere.

I also took a crack at trading in the market on my own account, and did very well until the brokerage house handling my orders went up the spout. Finding that I had a tendency toward active trading, in which the commission account was a big handicap, I bought a seat on the New York Consolidated Exchange and started in as a floor trader, scalping for eighths, and taking no commission business whatever.

A very large proportion of the active Consolidated members were engaged in the same occupation, and you can bet competition was keen enough. It took me a long while to accustom myself to standing around from ten till three every day, and a longer while to get on to the tricks of trade, learn to keep a cool head, and retain an unbiased attitude.

Plan of Trading

My general plan was to stop my loss as soon as I found a trade going against me. Even if it was only 1/8 or 1/4, I stopped the loss and waited for a fresh opportunity.

For the benefit of outsiders who do not understand the workings of the Consolidated Exchange I will explain that this is not a primary market. Transactions on the Consolidated are based solely upon the New York Stock Exchange quotations, which are received by telegraph, ahead of the ticker, and posted on the big blackboard at one end of the Consolidated floor. In fact, it might be said, that without these New York Stock Exchange quotations the Consolidated Exchange could hardly exist in its present status. In proof of this, well-posted people will recall some years ago a day when the New York Stock Exchange was closed but the Consolidated was not. The members of the Consolidated agreed in advance that the transactions of the next day should be made as voluminous as possible, and whereas during ordinary sessions the Consolidated tape was filled with 10, 20 and 50 share lots, on this day there were numberless transactions in 100, 200 and 500 share lots. Prominent New York dailies refused to recognize the transactions, however, as representing the official transactions of the New York market for that day.

An Odd Lot Market

The market on the Consolidated Exchange is really a 10, 20 and 30 share market. Of course there are times when a trader can swing 100 to 500 share lots and in exceptional cases 1,000 share lots, but trades of this size are seldom possible unless you are dealing with a "wire house," viz.: those having quick connections with the New York Stock Exchange, and therefore qualified to bid for, or offer, round lots based on the market for the same stock on the "big board." As these houses have to pay 1/8 commission on anything executed on the New York Stock Exchange, the quotation on the "little board" is always at least this 1/8 away on either side. For instance, if B. R. T. is 45@45 1/8 in the "big board," it would be 44 7/8@45 1/4 on the "little board."

A Disadvantage

There is another disadvantage on the Consolidated, viz.: the fact that the majority of those on the floor are scalping. This, combined with the light volume of commission business, produces a pecu-

liar situation. I refer to cases wherein a stock has a quick bulge of, say, a couple of points, such as from 45 to 47. If at the top of the bulge the ruling quotation is 47 on the New York Stock Exchange, the price on the little board is apt to be 46½@46¾.

The reason is apparent—so many traders make a practice of selling on bulges and buying on dips that in such cases there is not a sufficient market to accommodate all the sellers, and those who wish to go short have to offer the stock down. This brings them in competition with the New York Stock Exchange Market, and sooner or later the parity between the two Exchanges is, in a measure, regained.

The same thing happens in a sharp slump. Many a time I have seen the "small board" market from a quarter to three-quarters per cent. above the Stock Exchange, simply because a lot of traders wanted to cover and the stock was not there to supply them. The disadvantages of doing business in a secondary market are, therefore, apparent.

Activity on the Consolidated is mostly in comparatively few stocks — another factor operating against the floor trader.

In my few years' experience I have found it best to operate in lots of from 20 to 40 shares, to stay out of the market when it is wild, and to follow the invariable rule of cutting losses short. It is equally important when a profit is once secured, to let it run, and follow closely with a stop order. Now that I have this idea down almost to a mechanical system, I can knock out $5,000 or $6,000 a year without trouble, but I would clean up a great deal more if I had a larger stock of patience. Many times I could have taken several points profit when my desire to be out of one thing and into another trade impelled me to close out a profitable deal. There are traders on the floor who perhaps can average from $20,000 to $25,000 a year, but these are exceptionally gifted along this line.

Advantages of "Big Board"

One of the great reasons why so many of the Consolidated boys have graduated into the New York Stock Exchange is, that when they become really successful traders, and can swing good sized trades, the limitations of the "small board" are a great handicap.

Still I am fairly contented to plug along, making a good living, having no customers to worry about, no office expenses, and carrying practically nothing over night. I cannot go broke unless I grow reckless, and if my system will stand the nerve-racking incidental to the game, I see no reason why my future is not secure.

While it is a good deal better than clerking it, I cannot advise any one to throw up his job or liquidate his other business for the purpose of engaging therein, as, in the final analysis, he might find himself totally unfitted for this character of work.

MARKET STATISTICS

	Dow-Jones Avgs. 40 Bonds	20 Inds.	20 Rails	50 stocks High	Low	Total Sales	Breadth (No. Issues)
Monday, Oct. 21	78.63	88.15	90.34	78.76	77.04	1,279,000	252
Tuesday, " 22	78.87	87.79	91.80	78.74	77.08	1,100,100	252
Wednesday, " 23	79.05	87.10	90.26	78.28	76.21	1,113,100	242
Thursday, " 24	78.84	87.10	89.58	76.95	75.94	712,500	203
Friday, " 25	78.79	86.52	88.78	76.55	75.64	580,500	209
Saturday, " 26	78.76	87.70	89.55	77.29	76.25	347,400	165
Monday, " 28	78.71	87.28	89.21	78.46	76.58	978,100	214
Tuesday, " 29	78.89	86.39	88.85	77.05	75.98	568,200	196
Wednesday, " 30	78.90	84.08	87.46	75.92	74.31	971,900	231
Thursday, " 31	78.83	85.51	88.11	75.68	74.12	820,000	213
Friday, Nov. 1	79.09	85.53	88.63	76.60	75.25	826,900	220
Saturday, " 2	79.31	85.23	88.53	75.82	74.99	404,400	190

IMPORTANT DIVIDEND ANNOUNCEMENTS

To Obtain a Dividend Directly from a Company the Stock Must Be Transferred Into the Owner's Name Before the Date of the Closing of the Company's Books

Ann. Rate	Name	Amount Declared		Paid to Holders as of	Payable
$3	**Amer** Bank Note, c	75c	Q	Nov. 1	Nov. 15
....	Amer. Can, p x m	2.715%		Dec. 11	Dec. 30
....	Am H & L, p x m	1¾%	Q	Dec. 14	Jan. 2
7%	Amer Rys, p	1¾%	Q	Nov. 6	Nov. 15
....	Am St Fdries, x xx	1¼%		Sept. 14	Sept. 30
7%	Am Wt Wks & El, p	1¾%	Q	Nov. 10	Nov. 15
$8	Anaconda Copper .	$2	Q	Oct. 19	Nov. 25
6%	Asso Dry Gds, 1st p	1½%	Q	Nov. 9	Nov. 30
7%	Asso Dry Gds, 2d p	1¾%	Q	Nov. 9	Nov. 30
5%	Atlantic Coast L, p.	2½%	S	Oct. 29	Nov. 11
8%	**Beth** Steel, 8% p	2 %	Q	Dec. 16	Jan. 2
7%	Beth Steel, 7% p..	1¾%	Q	Dec. 16	Jan. 2
10%	Beth Steel, c A...	2½%	Q	Dec. 16	Jan. 2
10%	Beth Steel, c B....	2½%	Q	Dec. 16	Jan. 2
$8	Buckeye Pipe Line.	$2	Q	Nov. 23	Dec. 14
10%	Burns Bros, c	2½%	Q	Nov. 1	Nov. 15
....	Burns Bros, c x..e	2½%		Nov. 1	Nov. 15
7%	**Canada** Cement, p..	1¾%	Q	Oct. 31	Nov. 16
6%	Cities Service, p...	½%	M	Nov. 15	Dec. 1
6%	Cities Service, c...	½%	M	Nov. 15	Dec. 1
....	Cities Service, c x.e	¾%		Nov. 15	Dec. 1
....	Colo & South, 1st p	2 %		Nov. 9	Nov. 15
4%	Columbia Gas & El.	1 %	Q	Oct. 30	Nov. 15
7%	Consolidated Gas ...	1¾	Q	Nov. 7	Dec. 16
7%	**Deere** & Co, p	1¾%	Q	Nov. 15	Dec. 10
$8	Detroit United Ry.	$2	Q	Nov. 15	Dec. 1
8%	Diamond Match ...	2 %	Q	Nov. 30	Dec. 15
6%	**Eastman** Kodak, p..	1½%	Q	Nov. 30	Jan. 2
10%	Eastman Kodak, c..	2½%	Q	Nov. 30	Jan. 2
....	Eastman Kodak, c e	7½%		Nov. 30	Jan. 2
7%	Eastern Steel, 1st p	1¾%	Q	Dec. 2	Dec. 16
7%	Eastern Steel, 2d p	1¾%	Q	Dec. 2	Dec. 16
10%	Eastern Steel, c...	2½%	Q	Jan. 2	Jan. 15
4%	Eisenlohr, O, & Br, c	1 %	Q	Nov. 1	Nov. 15
$4	**Gaston**, Wms & Wig	$1	Q	Nov. 1	Nov. 15
....	Ga Ry & P, 1st p x m	1 %		Jan. 10	Jan. 2
8%	General Chemical, c	2 %	Q	Nov. 20	Dec. 2
7%	General Cigar, p...	1¾%	Q	Nov. 25	Dec. 2
7%	Goodrich (BF), p..	1¾%	Q	Dec. 20	Jan. 2
4%	Goodrich (BF), c...	1 %	Q	Nov. 5	Nov. 15
7%	Gulf St Steel, 1st p	1¾%	Q	Dec. 15	Jan. 2
6%	Gulf St Steel, 2d p	1½%	Q	Dec. 15	Jan. 2
$6	**Hav** El Ry, L & P, p	$3	S	Oct. 25	Nov. 15
$6	Hav El Ry, L & P, c	$3	S	Oct. 25	Nov. 15
7%	Hercules Powder, p	1¾%	Q	Nov. 5	Nov. 15
$8	**Indiana** Pipe Line.	$2	Q	Oct. 23	Nov. 15
$8	Inland Steel	$2	Q	Nov. 11	Dec. 2
7%	Int'l Harv Co, n p a	1¾%	Q	Nov. 9	Dec. 2
....	Island Cr Coal, c x	$2		Dec. 28	Jan. 1
$1	**Kerr** Lake Mining.	25c	Q	Dec. 2	Dec. 16
7%	**Lake** of W Mill, p.	1¾%	Q	Nov. 23	Dec. 2
12%	Lake of W Mill, c.	3 %	Q	Nov. 23	Dec. 2
$4	Lehigh Coal & Nav.	$1	Q	Oct. 31	Nov. 30
12%	Liggett & Myers, c.	3 %	Q	Nov. 15	Dec. 2
$12	**Marlin**-Rckwll Corp.	$1	M	Dec. 4	Dec. 11
$12	Marlin-Rckwll Corp.	$1	M	Jan. 4	Jan. 11
$12	Marlin-Rckwll Corp.	$1	M	Feb. 4	Feb. 11
$12	Marlin-Rckwll Corp.	$1	M	Mar. 4	Mar. 11
$12	Marlin-Rckwll Corp.	$1	M	Apr. 4	Apr. 11
$12	Marlin-Rck Corp. a	$1	M	Nov. 4	Nov. 11
8%	Mont Lt, Ht & Pr.	2 %	Q	Oct. 31	Nov. 15
4%	Mont L, H & P Con	1 %	Q	Oct. 31	Nov. 15
6%	**Nat'l** Acme	1½%	Q	Nov. 15	Nov. 30
7%	National Biscuit, p.	1¾%	Q	Nov. 16	Nov. 30
7%	National Biscuit, c.	1¾%	Q	Dec. 30	Jan. 15
7%	Nat Enam & St, p	1¾%	Q	Dec. 11	Dec. 31
6%	Nat Enam & St, c.	1½%	Q	Nov. 9	Nov. 29
7%	National Lead, p...	1¾%	Q	Nov. 22	Dec. 14
16%	New Jersey Zinc...	4 %	Q	Oct. 31	Nov. 9
4%	Norfolk & West, p.	1 %	Q	Oct. 31	Nov. 19
7%	Norfolk & West, c.	1¾%	Q	Nov. 30	Dec. 19
6%	**Pacific** G & El, 1st p	1½%	Q	Oct. 31	Nov. 15
6%	Pac G & El, orig p	1½%	Q	Oct. 31	Nov. 15
6%	Penmans, Ltd., c...	1½%	Q	Nov. 5	Nov. 15
$3	Penna R R	75c	Q	Nov. 1	Nov. 30
6%	Pitts & West Va, p	1½%	Q	Nov. 15	Nov. 30
$7	Pressed Steel Car, p	$1.75	Q	Nov. 5	Nov. 26
$8	Pressed Steel Car, c	$2	Q	Nov. 13	Dec. 4
20%	Procter & Gamble, c	5 %	Q	Oct. 25	Nov. 15
8%	Pullman Co.	2 %	Q	Oct. 31	Nov. 15
6%	**Quaker** Oats, p....	1½%	Q	Nov. 1	Nov. 30
$2	**Reading** Co, 1st p.	50c	Q	Nov. 26	Dec. 12
$4	Reading Co, c	$1	Q	Oct. 25	Nov. 14
7%	**Savage** Arms, 1st p	1¾%	Q	Nov. 30	Dec. 15
6%	Savage Arms, 2d p	1½%	Q	Nov. 30	Dec. 15
6%	Savage Arms, c ...	1½%	Q	Nov. 30	Dec. 15
8%	Sears, Roebuck, c..	2 %	Q	Oct. 31	Nov. 15
6%	Sloss-Sheff St & Ir, c	1½%	Q	Oct. 30	Nov. 11
$20	Southern Pipe Lines	$5	Q	Nov. 15	Dec. 2
8%	Standard Milling, c.	2 %	Q	Nov. 19	Nov. 30
6%	Standard Milling, p.	1½%	Q	Nov. 19	Nov. 30
12%	Standard Oil of Ind	3 %	Q	Nov. 4	Nov. 30
....	Stand Oil of Ind, x	3 %		Nov. 4	Nov. 30
10%	Stand Oil of Cal...	2½%	Q	Nov. 5	Dec. 16
6%	Stewart-Warner	1½%	Q	Oct. 31	Nov. 15
$8	Superior Steel, 1st p	$2	Q	Nov. 1	Nov. 15
$8	Superior Steel, 2d p	$2	Q	Nov. 1	Nov. 15
6%	**Tobacco** Prod, c..d	1½%	Q	Nov. 6	Nov. 15
9%	**Un** Cig Strs Am, c	2¼%	Q	Oct. 30	Nov. 15
7%	U S Steel, p......	1¾%	Q	Nov. 4	Nov. 29
5%	U. S. Steel, c	1¼%	Q	Nov. 29	Dec. 30
....	U S Steel, c x.....	2 %		Nov. 29	Dec. 30
....	Utah Apex, spec ...	25c		Nov. 5	Nov. 11
....	**Va** Iron, Cl & Coke	6 %		Nov. 15	Dec. 5
$4	**Washington** Oil ...	$4	A	Nov. 20	Dec. 20
6%	White (JG) & Co, p	1½%	Q	Nov. 15	Dec. 2
8%	Woolworth (FW), c	2 %	Q	Nov. 11	Dec. 1

x—Extra.
a—Initial dividend.
e—Paid in common stock.
m—On account of accumulated dividends.
xx—Payable in Liberty Bonds.